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AN ANALYSIS OF POSSIBLE FEDERAL

BUDGET PROCESS REFORMS

THESIS

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Presented to the Faculty of the School of Systems and Logistics

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Preface

The subject of money is of universal interest. Its source and ultimate use, especially on the grand scale of the Federal budget, is especially fascinating. Choosing a subject area narrow enough to discuss in a thesis did not present a problem. The one area of Federal finance currently receiving the most press is the budget process itself. What better subject to investigate?

There is no paucity of information. Everyone from the streetcorner vendor to the President has an opinion, informed or otherwise. It seems that most of them take the pains to write about it. The budget process is viewed as in need of repair, but there is little agreement on how to improve it. The purpose of this thesis is to assemble the various proposals for reform and to analyze their impact and chances for success.

If the reader is new to the subject of the Federal budget process, the entire work should provide a comfortable perspective and even lead to further reading. I particularly recommend Allen Schick's Congress and Money. Light reading, it is not. It does give a marvelous flavor and insight into a potentially tedious subject. Should the reader be familiar with the evolution of budgeting, much time can be saved by omitting chapters I and II.

The one frustration encountered, and one I tried to correct with this thesis, is the widely dispersed sources of comment on budget reform. Here, in one location, can be found the majority of the current suggestions on how to improve the budget process. Included is a much-needed glossary which the newcomer should consult often. Getting all the terminology straight can be an enormous boon to understanding in this subject area.

I am greatly indebted to my most helpful thesis advisor, Dr Anthony D'Angelo, and my reader, Major Charles Beck. Their expert knowledge and critical eye for detail combined to make my work much easier and this thesis a success.

William R. Lantz

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Abstract

The Federal budget process has been in continual evolution since the first days of our nation. Control has periodically shifted from the Executive Branch to the Legislature, and then back again. The only real constant in the process has been change. The current budget process is based on the Budget and Accounting Act of 1921 and the Congressional Budget and Impoundment Control Act of 1974. The need for further change has been expressed by many, both within and external to the budget process. An investigation of these suggestions for reform is the subject of this thesis.

The second chapter is a chronological look at the evolution of the budget process. Early history is followed by a description of the 120 years of confusion from 1801 to 1920. The specific responsibilities of the key participants were first set out in the Budget and Accounting Act of 1921, which brought some order to the process, but gave a great deal of power to the Executive Branch. Congress redressed this imbalance with the Congressional Budget and Impoundment Control Act of 1974.

Since 1974, dissatisfaction has grown and many suggestions have been made on further changes; the most radical being a constitutional amendment forcing a balanced budget. Of equal importance have been such ideas as a biennial

budget, elimination of the second concurrent resolution, and even almost total repeal of all formal budget process legislation. Each of these reform suggestions, a total of seventeen, are discussed as to substance and their potential for acceptance.

The final chapter presents conclusions as to the prevailing mood in Congress for reform and which proposals stand the best chance of adoption. The responses of congressmen directly involved in the budget process and other expert sources were used as the basis for the evaluation. The final conclusion is that major reform is unlikely in this election year and doubtful in the near future. Too many divergent vested interests in Congress would have to concur on any changes. Opinion on what, if anything, must be done to improve the budget process is far from unanimous.

AN ANALYSIS OF POSSIBLE FEDERAL BUDGET PROCESS REFORMS

I. Introduction and Methodology

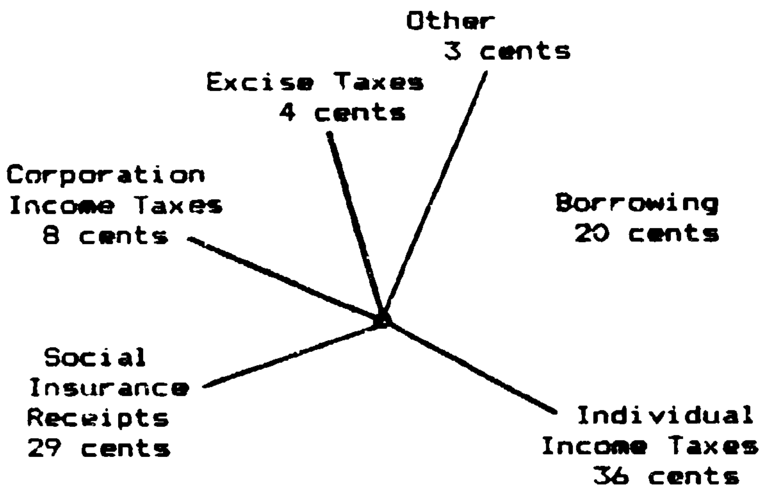
The word "budget" was once a term used mostly at the household level. It symbolized the wage earner's struggle to keep his appetite for goods and services in line with his take-home pay. Although many families ran a short-term deficit, but they usually paid off most of their bills and kept debt at a reasonable level. There was concern as aggregate consumer debt grew, but individuals seemed to handle their personal situations fairly well; or, they faced bankruptcy and a prolonged reduction in their standard of living. The public at large heard very little of budget problems at the Federal level. After all, didn't the Federal government have an unlimited source of funds through borrowing, taxing, or the printing press? Most people believe that the government should never have a problem matching revenues with spending. Figure 1 illustrates the source and distribution of the current budget dollar.

It is not quite that easy. The Federal government is having an increasingly difficult time in making ends meet. Evening news programs, magazine articles, and newspaper cartoons deluge the populace with terms like: authorizations, appropriations, balanced budget, deficit spending,

THE BUDGET DOLLAR

Fiscal Year 1985 Estimate

WHERE IT COMES FROM...



WHERE IT GOES...

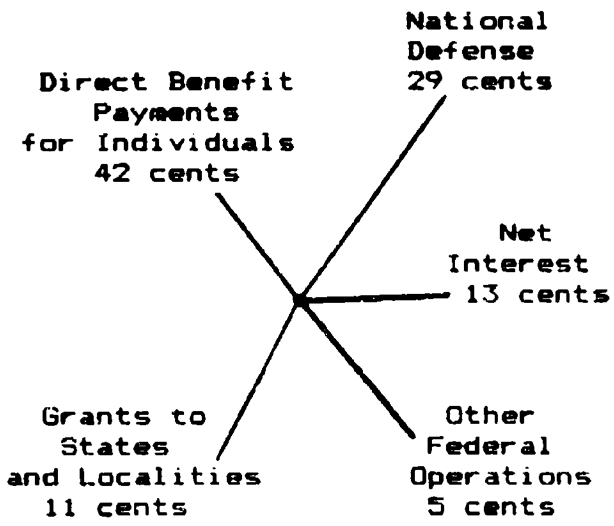


Fig 1. The Budget Dollar. Where It Comes From... (23:M2)

uncontrollable portion of the budget, continuing resolutions, and impoundment. Many people are unclear just what these words mean, but they are becoming aware that the Federal government does have a problem. The idea that the government currently runs a deficit virtually every year is vaguely unsettling (33:3467). Any conception of what a $200 billion deficit, or a national indebtedness in excess of $1.5 trillion holds for them personally, borders on the incomprehensible. Questions of what is going wrong and who is responsible are being asked. Many of the answers involve Congress and the 535 popularly elected senators and congressmen.

In the United States Congress lies the power to generate revenue and the power to authorize its expenditure (U.S. Constitution, Articles 8 and 9). Much of each session of Congress is directly involved in carrying out these two very important responsibilities. So much time is spent, in the view of many of those both within and outside Congress, that little else of substance can be accomplished (27:323). The budget process extends from the time the president submits his recommendations each January until the end of September when the 13 appropriation bills must be passed. A brief respite follows, and then the process is repeated. There are very few periods when some substantial portion of Congress is not deeply involved in the budget process.

What is the problem? Does Congress lack the means to enact a timely budget? Is the executive branch and its many agencies too much of an adversary to Congress in our check and balance system? Has the budgeting process itself become too unwieldy for any single body to properly control? Are there suggested cures and the will to implement them? Would the medicine be more distasteful than the disease?

There is common agreement on one issue: The congressional budget process of annual authorization and appropriation is not functioning as well as it should (1:35). There is general agreement on the need for reform, but substantial disagreement on the nature and extent of the needed changes.

> There is general agreement that the budget process needs improvement. The huge Federal deficit has added to this interest, and generated a greater sense of urgency to the debate on what ought to be done. That debate, and the proposals being offered, unfortunately are all over the ball park, and this in turn has blunted the expectation that much will be accomplished soon (18:1).

The process itself and the suggestions for reform provide the basis for this research effort.

The Budget and Accounting Act of 1921 and The Congressional Budget and Impoundment Control Act of 1974 are the two major attempts by Congress to set up a means and a process to efficiently and effectively collect and authorize the disbursement of money. The 1921 Act established a formal budget process, where none existed before, and gave much of the power to the executive branch. The 1974 Act

addressed this imbalance and returned much of the control of the budget process to Congress. However, neither has really lived up to expectations. Congressman James R. Jones, Chairman of the House Committee on the Budget:

> As one of the original sponsors of the Budget Control and Impoundment Act of 1974, I had high hopes that the creation of a Budget Committee and the necessity of bringing all government spending and taxing issues into a single budget resolution would impose a measure of fiscal discipline on the Congress. At least it appeared that taking a comprehensive look at the total budget would be better than the existing system. Before the Budget Act, thirteen appropriations subcommittees reported out, and Congress voted on, thirteen separate funding bills without much consideration of the final outcome.
>
> Unfortunately, the system has not worked out that way (12:3).

Pressure for further reform is increasing. Senators and congressmen alike have submitted literally hundreds of proposals to improve the system. They range from a constitutional amendment that would mandate a balanced budget (Senate Resolution 58) to minor procedural changes designed to aid the flow of paperwork through the numerous subcommittees (30:569). Many of the latter have been implemented. Major change awaits a political consensus that may be a long time in coming.

Recent large deficits and the growing uncontrollable portion (See Glossary) of the Federal budget have focused this concern and generated much of the current pressure for

reform (18:1). The issue has been raised time and again that the process itself contributes heavily to the deficit since authorization and appropriation committees are annually swamped with old and new programs demanding attention. Taken in the very political context of the Congress, the relatively short time allowed by the current process does not seem to allow either adequate time to review and pass legislation, or the opportunity to exercise the important function of congressional oversight of previous legislation (1:35).

The Specific Problem

In the view of many, the congressional budget process of annual authorization and appropriation is not functioning well. Legislation is not being adequately considered prior to final vote (1:35). Even the self-imposed timetable for review and passage of appropiations is not being met. Continuing resolutions (See Glossary) are the norm rather than the exception. Only once since 1974 has Congress met its own timetable for either concurrent resolution (See Glossary) (13:22). Government agencies, which depend on timely appropriations, are faced with uncertain fundings.

Although there have been numerous suggestions on what the problem is and how to correct it, there has been little consensus or movement toward substantive reform. The suggestions and their implications for Congress is the subject of this research effort.

Research Questions and Objectives

1. What is the past history of the Federal budget process?
   a. What kind of system did the Budget and Accounting Act of 1921 create?
   b. How did the Congressional Budget and Impoundment Control Act of 1974 modify the 1921 Act?
2. What are the current problems?
3. What reforms have been suggested?
   a. Are the reforms feasible?
   b. Are lasting solutions possible?
4. How would these reforms affect the congressional budget process?
   a. How would the power structure of Congress be affected?
   b. What committee relationships might be affected?

Limitations

The primary source of information for reform proposals on the congressional budget process is Congress itself. Personal interviews of congressmen, or their senior staff, was much the preferred method of determining current thinking on potential changes to the system. However, in a presidential election year, the availability of these individuals was a question mark. Due to their personal nonavailability, secondary sources such as the <u>Congressional Record</u>, various other congressional publications, and the professional media

were used and considered adequate for the purposes of this research. In addition, six congressmen, or the executive directors of their committees, did take the time to respond to written questions (See Appendix C). Their comments are a valuable contribution to this paper.

A secondary limitation is the natural reluctance of congressional personnel to be completely candid with a member of one of the executive agencies often in an adversarial relationship. Every effort was made to negate or minimize this coloration to the research.

Scope

This thesis is initially quite historical in nature. With a process as complex as Federal budgeting, an understanding of the current problems depends, in part, on knowing how the process evolved.

Once the background is established, a more specific investigation is made of the perceived flaws of the budget process and the major proposals for reform. No attempt is made to judge the congressional budget arena itself and the inherent limits it puts on possible reform. Conclusions will be drawn from the possible rather than an unrealizable ideal.

Methodology

There is no lack of information concerning the congressional budget process. Virtually every popular news

magazine, television program, and newspaper has at least one comment on the current Federal budget. The large Federal deficit and its real or imagined consequences for each level of society has changed a dull, routine subject into lively parlor conversation. Everyone has an opinion, informed or otherwise. The problem encountered in this research effort was determining the authoritative views and separating reality from wishful thinking.

The initial tendency was to rely on secondary sources for much of the historical material of the literature review and the congressional views on reform of the current budget process. It was recognized that, especially in a presidential election year, few members of Congress would be available for in-depth personal structured interviews. This would later prove to be a reasonable assessment.

The background history, outlining the evolution of the congressional budget process, was successfully conducted through library research. Numerous books are available on the subject and many studie , reports, and comment on the budget do take a cursory look at the evolution of the process from the first years of the Republic. This approach provided for the historical perspective, but was considered inadequate for a recording and evaluation of the views on reform of the current congressional budget process. A great deal has been written on the subject, but it rapidly becomes stale.

The best source of current information is Congress itself. Once political rhetoric and partisanship are set aside, there is no more accurate fund of information than the men and women who function within the system. This source provided that the majority of authoritative opinion.

The determination that in-person structured interviews would be impractical during this time period would ordinarily be a major setback to research. It proved to be only a minor problem. Among all government, corporate, and private organizations there is probably none that receives more attention in the media, or, that publishes more information about itself. Whether it be the generalized Congressional Record or the subject-specific volumes published by each congressional committee, there is not paucity of information on budgeting or direct quotations from those involved in and advisory to the congressional budget process. These publications were heavily relied on for this project.

Primary sources were not ignored. If personal interviews were not possible, direct written communication could be an acceptable alternative. The chairmen of the Senate Committee on the Budget, Committee on the Armed Services, and Committee on Appropriations were sent a letter (See Appendix B) explaining the purpose of this research and a list of subjects of research interest for their comment.

The letter was also sent to the corresponding House committees. Minority opinion was solicited through nearly identical correspondence with the ranking minority member of each committee.

A limited personal response was expected, again due to the time constraints on the legislators. The large volume of usable information received was most helpful. Many of those queried did respond to at least some of the questions. Senator Mark Hatfield, quoted in the text, was the most candid and elaborate in his remarks.

If only a brief review of the reforms discussed is desired, a six-page summary at the end of Chapter IV provides the necessary information.

The research effort itself consisted of four specific areas:

1. A thorough look at the history of the Federal budget process from our country's beginnings to the present. An historical perspective is essential to the understanding of the process and how certain proposals for reform would work in the current congressional context.
2. Step two included researching the proposals for reform both from the professional literature and congressional respondents.
3. Each of these proposals was then compared to the current budget process and analyzed as to its potential effect.

4. Finally, conclusions were made concerning which proposals stand both the best chance of adoption and the most hope for successfully meeting the needs of Congress.

II. Historical Review of the Federal Budget Process

Current generations are apt to blame the problems and imprecise nature of the government on either the preceding generation or a deterioration in modern times. However, the adversarial nature of the relationship between Congress and the Executive Branch, especially in the area of finances, has strong roots in the first days of the democracy. It is a history of two separate but equal bodies of the Federal government wrestling for control. Each feels it knows how best to meet the needs of the nation. Neither can gain total control over the other. As much as anything else, the ebb and flow of the political parties themselves has determined the outcome.

If control of the purse is used as a criteria, the evolution of the budget process can be divided into four relatively dissimilar periods.

1. 1789-1801 -- The Executive had control of the process through a strong Secretary of the Treasury. The Secretary performed many of the current congressional appropriation functions.
2. 1802-1920 -- A period of general confusion and conflict between Congress and the Executive with few inescapable rules governing the process.
3. 1921-1974 -- An era following the Budget and Accounting Act of 1921 where Congress recognized the need for a formal budget process, but also that

it may have given away too much authority to the Executive Branch.

4. 1974-Present -- The modern era following the Congressional Budget and Impoundment Control Act of 1974 when Congress successfully regained much of the power over the spending function.

<u>The Early Years: 1789-1801</u>

The formative early years of the Republic were marked by a contrast of philosophy between Alexander Hamilton and Thomas Jefferson. Hamilton was highly regarded for his financial acumen and was appointed to a cabinet position as the first Secretary of the Treasury by President Washington. The new nation, heavily in debt due to the war, desperately needed a source of revenue as a means to establish its creditworthiness among nations. For the first three years, Hamilton had almost total control over the new government's finances and succeeded in putting the country on a sound financial basis (6:9). One of his first acts, for example, was to assume the debts of the states incurred during the War of Independence (27:227). Congress watched the process, requested and received a report of the monies required, but got little information on how the money was actually spent. The first "budget," small by today's standards, totalled almost $645,000 (8:6).

Two opposing philosophies were already in place: Hamiltonian "executive discretion" and Jeffersonian legislative restraint." The former view held that legislative appropriations should be general in nature and allow the executive agencies the leeway to spend the money as the situation dictated. The Jeffersonians, in contrast, wanted very specific appropriations and no executive discretion to alter congressional intent (29:3-4).

Congress grew very uneasy over Hamilton's handling of the budget process, not as to impropriety, but with a sense of loss of control over how the monies were being spent. A detailed budget was required in 1792, but the result was essentially the same. Hamilton transferred funds among the appropriations provided by Congress in ways to meet current specific needs (8:7). This practice was continued by Hamilton's successor, Oliver Wolcott, until 1801, when Jefferson became president.

The conflict between Hamilton and Jefferson is represented by the following letter by Hamilton describing his adversary's position. It is regarded as an overstatement, but it does serve to highlight the conflict of views and sets the pattern for Congress' continuing attempt to control the Executive Branch through the power of the purse.

> Nothing, for instance, is more just and proper than the position that the legislature ought to appropriate specific sums for specific purposes; but nothing is more wild or of more inconvenient

> tendency, than to appropriate "a specific sum for each specific purpose, susceptible of definition" as the message preposterously recommends. Thus in providing for the transportation of an army, oats and hay for the subsistence of horses are each susceptible of a definition and an estimate, and a precise sum may be appropriated for each separately; yet in the operations of an army it will often happen that more than a sufficient quantity of the one article may be obtained, and not sufficient quantity of the other. If appropriations be distinct and the officer who is to make the provision be not at liberty to divert the fund from one of these objects to the other, the horses of the army may in such case starve and its movement be arrested--in some situations the army itself may likewise be starved, by a failure of the means of transportation (31:52).

Although congressional control was never totally achieved over the next one hundred years, the trend toward centralization of control over the budget in the Executive was halted. The Secretary of the Treasury was largely removed from the process and put in a monitor role. As a result, the executive agencies had to deal directly with their respective congressional committees (31:53).

In 1796, the House of Representatives formed a Committee on Ways and Means. This marked the beginning of the end for effective Executive control of the budget process until 1921 (8:8). It also ushered in an important change in the relationship between Congress and the Executive. In the early years, direct personal contact between the two branches was the norm. Indeed, while housed in a common building, information flow constituted a trip down a short hallway to converse with a member of the other branch

of government. From Jefferson's presidency on, as the Federal government expanded, facilities were separated and communication switched from oral to a more impersonal written dialogue (3:10).

Three important trends were established during this early period that would become recurrent themes in Congressional and Executive relationships.

1. "Congress attempted to control the Executive Branch through highly specific appropriations.
2. A strong adversarial relationship developed, mainly over money.
3. Congress, by default, failed to use its power of review as an instrument of executive agency control" (31:49, 8:9).

The Period of Confusion: 1801-1920

The 120 years from the time President Jefferson took office until the Budget and Accounting Act of 1921 can best be described as one of confusion and conflict. Early in the period, the new nation was just getting itself organized. Division of responsibilities between the Executive and Congress had to be sorted out in the arena political struggle with no long-term personal winners or losers. It was efficient process and procedure that was often elusive. Arthur Smithies, in The Budgetary Process in the United States:

> The defeat of the Federalists, which might at the time have appeared to have settled the balance of financial power, actually began a period of financial confusion from which we have by no means fully recovered (31:53).

The House Ways and Means Committee held complete power over both revenues and appropriations from 1802 to 1865 (6:10). The Executive was required to submit a budget through the Secretary of the Treasury, but it was primarily a clerical act largely ignored by Congress. How much to spend and on what was the exclusive domain of Congress. Tariffs provided the bulk of the revenue and one of the main problems facing Congress was not how to budget scarce resources, but how to spend the huge amounts generated by the tariff.

Although formal control of authorizations and appropriations was vested in Congress by the constitution (Article 1, Section 8), and actual control had been regained from the Executive by 1802, the following period was not harmonious. The Executive resisted the Congress and did everything in its power to thwart congressional intent.

> The period 1801-1920 was characterized by illegal fund transfers, a lack of cooperation between the Legislative and Executive Branches, expenditure of lapsed appropriations, the creation of deliberate deficiencies, and by Congressional insistence on detailed line-item budgets (8:1).

To maintain perspective, however, it is important to note that the fund transfers and deficiency spending were

not all politically motivated. Appropriating funds for very specific purposes seems, initially, to be the best course of action. However, with change the only constant, today's need may turn out to be tomorrow's folly. The Executive did need at least some leeway to spend money in view of current conditions, yet Congress was very reluctant to grant this power.

> The Congress never seemed to realize that estimating future requirements, especially in detail, was an uncertain business. The greater the amount of detail required in appropriations, the greater the incentive to the Executive to evade the legal restriction (31:55).

The Department of the Treasury, under President Jefferson, generally followed congressional wishes and provided a detailed, specific budget. The Departments of State, War and Navy were the prime agencies either unwilling or unable to strictly adhere to their specific appropriations (31:54). Ignoring the intent of Congress, they transferred funds among the specific appropriations, as needed. In 1809, Congress enacted a law which was to have only minimal effect due to an enormous loophole. The law stated that "the sums appropriated by law for each branch of expenditure in the several departments shall be solely applied to the objects for which they are respectively appropriated, and no other" (31:54). Congress then gave the president power to transfer funds among appropriations when the Congress was not in session. The closing of one loophole bred a second. The War

and Navy Departments, for example, changed tactics and began spending lapsed appropriations that were no longer legally available for obligation.

In 1852, Congress again attempted to constrain the Executive by passing the War and Navy Appropriations Acts which prohibited transfer of money among appropriations and restricted the use of lapsed appropriations. Again, ingenuity prevailed and the Navy began running up deliberate deficiencies, knowing that Congress would eventually fund the debt (8:10). Their faith was securely founded on the almost continuous surplus of revenue from the tariff and a relatively low level of expenditures ranging from $11 to $63 million from 1800 to 1860 (3:28). In fact, only once during the entire nineteenth century did Federal expenditures reach the $1 billion mark, and that was for expenses associated with the Civil War (8:6).

During the Civil War, the War and Navy Departments ignored all congressional restrictions on appropriations (8:56). After the war, attempts to restrict Executive spending returned periodically. Having closed most other loopholes, Congress turned, in 1906, to finally stop the executive agencies from deficiency spending.

The Anti-Deficiency Act of 1906 was only partially successful. It prohibited all kinds of spending in excess of appropriated funds, except in cases where contracts or

obligations had previously authorized it by law (8:12). To help ensure compliance, it required that executive agency heads apportion their annual funds on a monthly or quarterly basis. This limitation was designed to prevent an agency from spending its entire appropriation in the first few months of the fiscal year and then forcing Congress to either fund the remaining period or allow the agency to go out of business. The Act did have one major weakness which tended to thwart congressional intent. It allowed the head of the agency to change the apportionment if conditions warranted (8:13). The apportionment device continues today; a power held by the Bureau of the Budget and its successor, the Office of Management and Budget, since 1933 (8:13).

The second half of the 19th century also saw another trend in congressional budgeting that remains intact today, fragmentation of the process itself. In 1865, the House created an Appropriations Committee to ease the workload on the Ways and Means Committee. (The Senate created a similar committee two years later.) In 1875, the House passed a bill that allowed the Appropriations Committee to propose amendments to any legislation, provided that these amendments reduced expenditures (31:61). Virtually all legislation was fair game and the law put a great deal of power in the hands of the Appropriations Committee. Reaction was slow in coming, but in 1885, the House stripped the

Appropriations Committee of its authorization and appropriation powers and lodged this responsibility in nine other specific committees (8:11).

Throughout the entire history of the country, until 1921, there never really was a Federal budget process as understood today (29:3). The emphasis was almost totally on expenditures. Revenues generally took care of themselves, thanks to the money generated by the protective tariff. Corruption, too, had developed to an alarming level. The legislation enacted in the early 1900's reflected a growing concern that reform was needed (8:14).

Before a true budget process could be implemented, Congress had to cure one long-standing major ill: Knowledge of the source of revenue, and its estimated amount, had to be matched with demands for expenditures. There could be no other way to reach intelligent decisions in apportioning the nation's resources. The 1907 and 1909 Appropriations Acts took initial steps to resolve this problem. The 1907 Act required the Secretary of the Treasury to provide the Congress with estimates of revenue in addition to the annual agency requests for appropriations. The 1909 Act enlarged the responsibility of the Executive even more. If expenditures were projected to exceed revenues, the Secretary of the Treasury was to notify the president who would, in turn, propose revenue or spending reduction measures to make up the deficit. Although not a long-term solution, this was the first glimmering of a Federal budget process (31:62).

The initial step towards a formal national budget process was taken when President Taft appointed a Commission on Economy and Efficiency in 1910 (7:20). It was the first time a comprehensive study had been conducted on the need for a budget. After spending two years, the Commission produced five recommendations.

1. "The president should prepare a comprehensive annual budget that would contain both revenues and expenditures.

2. A new functional class of accounts should be developed to better explain expenditures in terms of programs and functions. Capital and current outlays were to be designated.

3. The Secretary of the Treasury should gather budget estimates from the various agencies and consolidate them in one detailed financial report.

4. Accounting and reporting systems should be developed to allow agencies to intelligently build their budgets.

5. The Executive should be granted some discretion and flexibility in the transaction of business to enhance economy and efficiency" (31:68-71, 8:14-15).

The Taft Commission's final report, "The Need for a National Budget," was delivered to Congress in June of 1912. Due to the existent adverse political climate, it received a very cool reception (6:20). There was no immediate positive legislation in response to the report; that came only after World War I. Its immediate and lasting contribution to the budgeting process was to raise the country's awareness of the need for budget reform. It generated such

public response that all major political parties (Republicans, Democrats, and Progressives) in the election of 1916 made support of a national budget one plank of their party platform (6:21).

This particular period is so critical in the historical development of a budget process that a review and summation of the overall political climate preceding the Budget and Accounting Act of 1921 is appropriate. John S. Saloma, III, in his book The Responsible Use of Power, provides such an informed look.

> "Several conclusions emerge from the post-Jefferson experience in fiscal control.
>
> 1. First, after the repudiation of the Hamiltonian experiment, Congress assumed the dominant role. It was commonly accepted that Congress had the exclusive power of appropriation--and that this power included the right to specify the objects of appropriation and the amounts to be applied to each object.
>
> 2. Second, according to the accepted doctrine of legislative restraint, the executive was obliged to follow the spending directives of Congress, and to depart from specified appropriations only under circumstances of national emergency.
>
> 3. Third, in practice the executive proceeded to develop a variety of techniques or devices to achieve de facto if illegal discretionary powers.
>
> 4. Fourth, periodic congressional attempts to enforce specific appropriations rigorously ended in failure, resulting in loss of congressional control of the budget process.
>
> 5. Fifth, against this background of conflict of legislative and executive roles, the

congressional machinery for budgetary control underwent a steady process of disintegration over the course of the century.

This digression into the historical experience of the nineteenth century helps to explain the context within which the Budget and Accounting Act of 1921 was formulated and the legislative and executive roles in the budget process redefined" (29:5-8).

The Era of Executive Control: 1921-1974

The Budget and Accounting Act of 1921 did spring from the confusion of the previous 120 years and the need for reform, but the final push for enactment came from another source. The general public was weary of the graft and poor management of finances at the local and state level. Budgeting reform began as a grass-roots campaign to reform municipal governments (67:13).

Two events were the cornerstones of this movement. In 1899, the National Municipal League drafted a model municipal corporation act to give the city mayors a direct voice in the budget process. Previously, tight control rested in the city councils (6:13). And, in 1906, the New York Bureau of Municipal Research was established, bringing together a group of experts to study a budgeting process for New York City. The success and influence of these two organizations helped bring about major budget reform. By the mid-1920's, most major cities had established at least a rudimentary budget system (6:14).

... the budget was conceived as a major weapon for instilling responsibility in the governmental

> structure: the budget system rests on popular control; the budget will publicize what the government is doing and make for an informed and alert citizenry; the budget will destroy the rule of invisible government -- the party bosses who are responsible to no one (6:14).

Ridding the cities of corruption was not the sole motivation. Much of the push for a budget process came from the business community. As government at all levels became more involved with providing services to the public, the need for revenues increased. Higher taxes tended to impact the businessman the hardest and he saw budget reform as a way to make the municipal governments more efficient, and thus lower taxes (31:15).

The success of the cities with executive budgeting was not lost on the reformers at the state level. Again, it was a reaction to a definite need that inspired the changes.

> After the turn of the century state governments began to encounter increasing financial difficulties. The general property tax was gradually abandoned as a source of state revenue in response to the demands of counties and municipalities for additional revenue sources. The abandonment of general property taxation by the states provoked pressure for efficiency and economy, and the budget system was viewed as a major instrumentality for achieving this objective. In addition, the same atmosphere of reform generated by the antagonism to "boss rule" and "invisible government" came to influence state legislatures, as it influenced municipalities and the federal government. As with municipalities, the activities of taxpayer's associations, trade organizations, and chambers of commerce were important in stimulating the demand for reform (6:23).

"The first state law to authorize the governor to draft a budget for submission to the legislature was enacted in Ohio, in 1910. By 1920, forty-four states had adopted some kind of improvement in budgeting. Twenty-three of these provided for an executive budget" (31:23).

Substantive action toward budget reform at the national level, subject to the same public pressures that forced changes at the city and state level, took effect in 1919. The House of Representatives formed a Select Committee on the Budget to study the rationale for a Federal budget process. Their report, in October of that year, formed the basis for the Budget and Accounting Act of 1921.

> ...the estimates of expenditure needs now submitted to Congress represent only the desires of the individual departments, establishments, and bureaus: ...these requests have been subjected to no superior revision with a view to bringing them into harmony with each other, to eliminating duplication of organization or activities, or of making them, as a whole conform to the needs of the Nation as represented by the condition of the Treasury and respective revenues...(29:9).

The 1921 Act contained three main features:

1. The president was assigned the responsibility to prepare and submit to Congress an executive budget.
2. A Bureau of the Budget was created, reporting directly to the president.
3. The General Accounting Office was established under congressional control (29:9-10, 8:15).

The first provision followed the Taft Commission and Select Committee on the Budget recommendations. The president's budget, prepared by the Bureau of Budget from agency submissions, included both revenue and expenditure information. Congress also recognized that unplanned deficits or surpluses were possible, or that underlying conditions might change, and allowed the president to amend his budget submission, as needed. The only stipulation was that if a deficit were projected, the amendment needed to contain a recommendation for financing it; if a surplus, a method to reduce it to manageable levels (31:72). Lump sum appropriations were approved, but the beneficial effects were reduced by the requirement for "the president to submit detailed estimates of how those appropriations will be spent" (31:72-3).

The Bureau of the Budget (Office of Management and Budget since 1970) was created within the Department of the Treasury, but reported directly to the president. This unusual arrangement was the result of a political compromise between Representative Good, Chairman of the Select Committee on the Budget and author of the original bill establishing the Budget and Accounting Act; and Senator McCormick, who viewed the budgetary process in Hamiltonian terms, as part of the Treasury Department. This anomaly was changed in 1939, when the Bureau of the Budget was transferred to the newly created Executive Office of the President (8:18).

The Bureau of the Budget was established by Congress for three reasons.

1. To prepare the executive budget for the president.
2. To prevent new activities which would result in useless duplication of work.
3. To generally promote economy and efficiency in the administrative process (8:16).

It was given broad powers to study and investigate the executive agencies and report to the president. Congress was privy only if the president made the reports available (31:24). This gave the president a staff with the power to explore, generate, and essentially control the executive budget prior to its submission to Congress.

In creating the General Accounting Office (GAO), Congress acted to correct a major deficiency in its own budget process and to serve as a counterweight to the Bureau of the Budget. The functions of accounting, auditing, and settlement of accounts were all transferred from the Treasury Department to this new arm of Congress (8:16).

> Congress also envisioned a broad role for the new General Accounting Office in the budget process. While the primary intent was to equip Congress with an agent that could execute an independent audit of executive accounts -- a function Congress had failed to perform in spite of numerous committees on expenditures it had established and charged with the task -- it is also clear that Congress hoped to create a powerful new actor in the budgetary process (29:10).

Critics of the 1921 Act feared that it gave too much power to Congress and actually reduced Executive responsibility (31:76). The majority were content with the new Budget Act and were certain that much had been done to correct the deficiencies of the past.

> ...the Budget and Accounting Act of 1921 was unquestionably the most significant budgetary reform legislation ever enacted. For the first time in history, the United States had a budget process requiring formulation by the Executive, authorization and appropriation by the Congress, execution under the direction of the president, and independent audit as a means of Congressional review (8:17).

Hindsight would show that Congress did, indeed, yield considerable power to the Executive. Efforts to redress this imbalance began in earnest a decade later.

The movement for budget reform did not end with the 1921 Act, although major legislation was infrequent and targeted at specific deficiencies until 1974. Beginning in 1946, there were three main attempts by Congress to restructure its role in the budget process.

1. The Legislative Reorganization Act of 1946.
2. The Omnibus Appropriations Act of 1950.
3. Proposals for a Joint Committee on the Budget (6:328).

None of these attempts were very successful at the time they were first proposed. The Congressional Budget and

Impoundment Control Act of 1974 would later incorporate many of the ideas developed during this period.

The Legislative Reorganization Act of 1946 was the first substantive piece of legislation to improve the budget process since 1921. It brought together 102 members of the Senate Finance and Appropriations, and House Ways and Means and Appropriations Committees, to consider the president's executive budget. The purpose was to analyze the policy choices of the Executive and then propose a "legislative budget" to reflect congressional priorities (29:54). An estimate of total receipts, proposed expenditures, and a recommendation for a binding spending ceiling were also part of the committee's charter (38:69).

During the War, spending had reached unprecedented levels and Executive control of the budget was almost complete (6:328). An attempt to slow the rate of spending and to regain a measure of lost control was a natural reaction. There was widespread and enthusiastic congressional support for the new procedures embodied in the legislative budget.

> The legislative budget and the Joint Committee set up to effect it were seen as major steps toward strengthening congressional control of the purse, by rationalizing the congressional budget process and providing Congress with the mechanism to debate and determine broad fiscal policy (29:55).

Three attempts were made (1947, 1948 and 1949) to produce a legislative budget. All three failed. In 1947, the

Congress failed to agree on a budget ceiling. In 1948, a ceiling was agreed to, but then ignored as spending exceeded the ceiling. In 1949, the process was delayed and then abandoned altogether. The Act was left dormant until rescinded as part of the Legislature Reorganization Act of 1970.

Why did a procedure that had such enthusiastic support fail? Four reasons are cited:

1. A committee of 102 members of diverse interests was just to unwieldy, even when much of the work was done by smaller subcommittees.
2. There was inadequate staff support provided to the committee.
3. The legislative budget was due to be considered by the full House and Senate by February 15th. There was not sufficient time to analyze the president's budget and then draft one reflecting congressional preferences.
4. "Congress was reluctant to commit itself to a legislative budget prior to a detailed consideration of each appropriation request" (29:57, 8:19).

Even though the legislative budget was a failure, it was "an important event in budgetary history. It marked the first explicit recognition in recent legislation that the Congress itself must take responsibility for the relation of expenditures to revenues" (31:93). In addition, the 1946

Act provided Congress with a much needed increase in staff personnel to better evaluate the executive budget.

The central theme of the Legislative Reorganization Act did not die, either. In 1947, the Senate proposed combining all the appropriation measures into one package. The House initially refused, but did adopt the idea for fiscal year 1951 in The Omnibus Appropriations Act of 1950 (38:71, 6:330).

The process was a success. The combined appropriations were passed on schedule. However, it proved an unpopular procedure in both Congress and the Executive and was shelved after the one year trial. There were five major reasons for failure:

1. Many members of Congress felt the procedure did not allow sufficient time to consider the bill... especially since the House had to pass the entire package before the Senate received it.
2. The power of special interest groups and individual congressmen was weakened by a consolidated approach to appropriations.

> Much of the antagonism to the consolidated bill has come from outside the committee. Every predatory lobbyist, every pressure group seeking to get its hands into the...Treasury, every bureaucrat seeking to extend his empire" had opposed it (29:60).

3. An omnibus bill reduces overall legislative flexibility.

a. It invites riders that are difficult to control.

b. The president could decide to veto an entire appropriation over a limited area of disagreement. A cure for this would be to give the president a line-item veto (See Glossary).

c. A "meat-axe" approach to budget cuts was inherent in the process. Percentage cuts were used rather than careful consideration of each alternative (29:62).

4. The bill excluded over one half of the total budget which was then considered to be uncontrollable (8:20).

5. Too much power was placed in the chairman of the Appropriation Committees responsible for the bill.

The last of the major congressional attempts at sweeping reform was the proposal for a Joint Committee on the Budget. Although not a new idea, a bill specifically tailored to this purpose was introduced by Senator McClellan in 1950. It would establish a committee of 14 (seven from the House Committee on Appropriations and seven from the Senate Committee on Appropriations) to "develop various reforms Congress previously rejected or failed to implement." It also proposed to close other loopholes that have limited the effectiveness of congressional control (29:64).

The idea of a Joint Committee on the Budget also failed, largely due to the political realities of the congressional environment.

1. Experience with other joint committees (Joint Committee on Atomic Energy, for example) had soured the concept in both congressional and executive circles.
2. A joint committee tended to serve its own needs rather than the needs of Congress as a whole.
3. It was viewed as a mechanical device that only complicated existing machinery (29:66-7).

Two other developments related to budget reform between 1921 and 1974 are worthy of brief mention:

1. The Legislative Reorganization Act of 1939 -- Established the Executive Office of the President, providing a larger staff and making the president far more of an active participant in the workings of the Executive Branch. The Bureau of the Budget was enlarged and transferred directly under the president from the Treasury Department (8:18).
2. The Employment Act of 1946 -- Strengthened the power of the presidency in the budget process by making full employment and management of the economy a focal point of the Executive Branch (7:23).

The legislative and executive budget arena was not peaceful during the 1960's and early 1970's (30:17+).

It was marked by strong internal disagreements and a changing external environment. Deficits were increasing, the Viet Nam War was a costly factor, and Congress finally realized that its "inability to consider outlays and income together was one cause of the wild growth in the Federal budget" (4:24). Figure 2 shows the growth of the budget from an outlay viewpoint.

In 1972, Congress established a Joint Study Committee on Budget Control to study "the procedures which should be adopted by the Congress for the purpose of improving congressional control of budget outlay and receipt totals, including procedures for establishing and maintaining an overall view of each year's budgetary outlays which is fully coordinated with an overall view of anticipated revenues for that year" (36:5). Their report, in April, 1973, was the basis for legislation ending in the Congressional Budget and Impoundment Control Act of 1974.

The Period 1974 to the Present

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) resulted from many different pressures on Congress. It combined frustration with the Budget and Accounting Act of 1921, which was to be a "cure-all" for the problems experienced in the budget process, with a practical realization that deficits were rapidly increasing and Congress had lost control of its constitutional prerogatives. The reforms did not come easily. They were

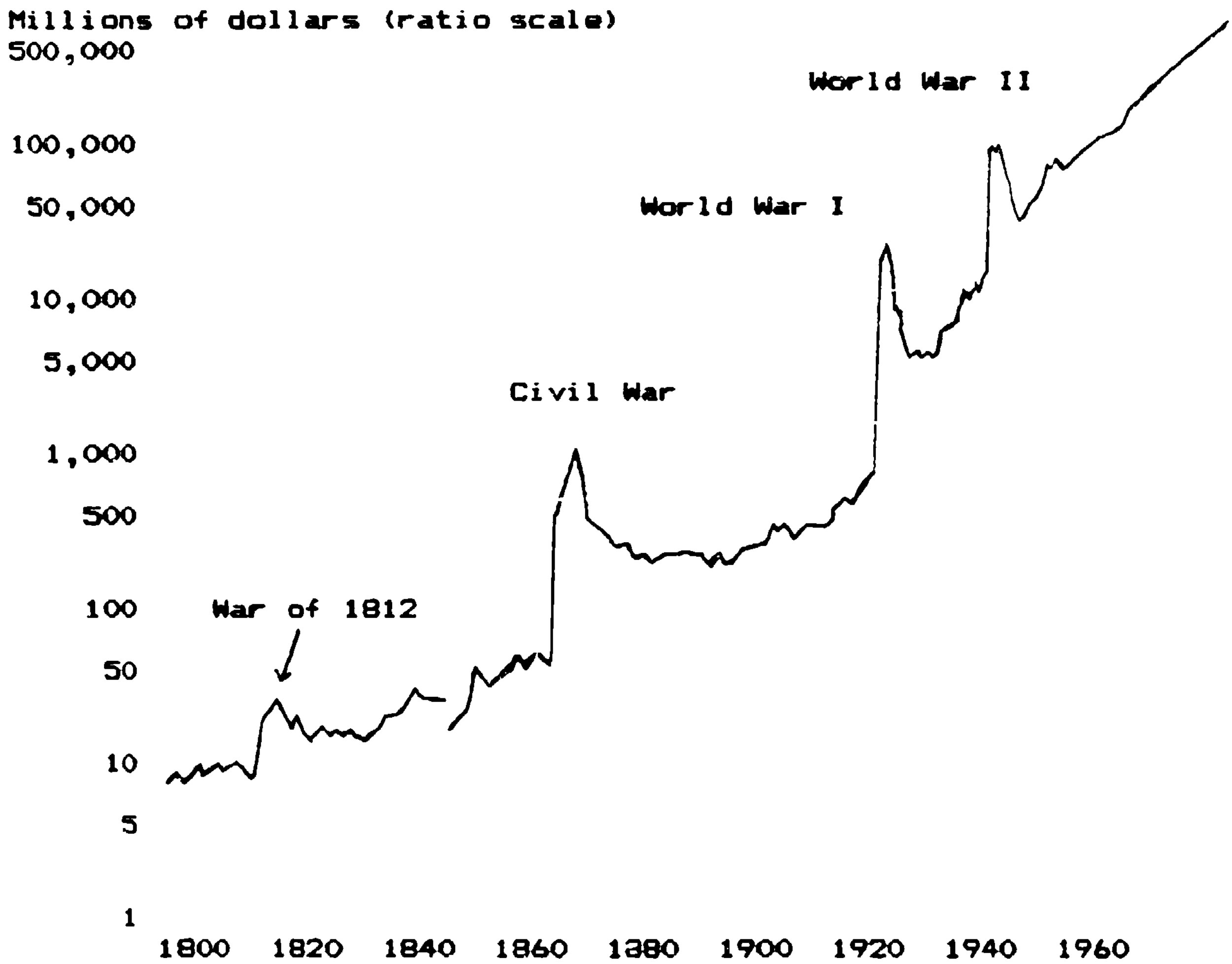


Fig. 2. Federal Outlays, 1794-1976 (26:54)

actually forced on the Congress through a confrontation with the Executive Branch over a budget ceiling (30:40).

In 1972, President Nixon requested a $250 billion limit on spending for fiscal year 1973; and the authority to make spending cuts, if needed, to bring the budget inline with that limit. The Congress did respond with P.L. 92-599 "Public Debt Limitation," but refused to grant the requested debt reduction powers (8:25). The ceiling was subsequently

eliminated by a House-Senate conference. When the requested ceiling was exceeded, President Nixon exercised his power throughout 1972 by vetoing 16 appropriation bills (36:5). The running battle between the Congress and the Executive is exemplified by President Nixon's statement when he vetoed the Federal Water Pollution Control Act Amendment of 1972.

> Even if this bill is rammed into law over the better judgement of the Executive—even if the Congress defaults its obligations to the tax-payers—I shall not default mine. Certain provisions of S. 2770 confer a measure of spending discretion and flexibility upon the President, and if forced to administer this legislation, I mean to use those provisions to put the brakes on budget-wrecking expenditures as much as possible (30:45).

When Congress mustered significant votes to override his veto, the President used his impoundment powers of recision and deferral to help achieve his policy goals. Congress was again forced to take positive action to overcome the impoundment. The continuing conflict with the Administration throughout President Nixon's final year in office was the final stimulus that pushed Congress into reform (30:43, 7:30). The constraints on presidential impoundment of already appropriated funds is often overlooked, but it is a vital part of the 1974 Act, if Congress is to achieve its purpose.

> Budget reform and impoundment control have a joint purpose: to restore responsibility for the spending policy of the United States to the

legislative branch. One without the other would leave Congress in a weak and ineffective position (33:3462).

The one positive outcome of the debt limitation law was Section 301, which established the Joint Study Committee on Budget Control. Twenty-eight of the 32 members were chosen from the Senate and House revenue and appropriation committees. This weighting gave a heavy bias to the reforms finally reported to the Congress in April of 1973. Two bills were submitted in response to the Committee report, H.R. 7130 and S. 1641. The House version, heavily amended, became the 1974 Budget Act, signed into law by President Nixon on July 12, 1974, one month before he left office.

Although there was agreement that something had to be done to regain congressional control of the budget process, the belief in the need for outright reform was not unanimous. A strong statement by the Chairman of the House Committee on Appropriations, Clarence Cannon, in 1963 reflects this belief:

> The machinery is at hand. It needs no reform. All we need is the will, the disposition to do it...The only way to restrain spending is to stop authorizing more, stop asking for more, stop appropriating more. There is no other way (29:viii).

The majority opinion derives from the legislative history of the 1974 Act:

> The dispersion of budget responsibility within Congress has left it unprepared for what are perhaps the two main contemporary purposes of

the budget process: to manage the economy and to determine public priorities.

The excessive fragmentation of the budget process in Congress makes it difficult for Congress to effectively assess program priorities or to establish overall budget policy. At the very least, priority setting means that competing claims on the budget are decided in some comprehensive manner rather than in isolation from one another (33:3468).

The Congressional Budget and Impoundment Control Act has five interrelated purposes as set out in Section 2 of the Act.

The Congress declares that it is essential--

(1) to assure effective congressional control over the budgetary process;
(2) to provide for the congressional determination each year of the appropriate level of Federal revenues and expenditures;
(3) to provide a system of impoundment control;
(4) to establish national budget priorities; and
(5) to provide for the furnishing of information by the executive branch in a manner that will assist the Congress in discharging its duties (36:82).

The Budget Act did little to directly affect Executive Branch participation in the budget process, except for establishing a new timetable for submissions. The majority of reforms were directed at Congress itself in an effort to regain control of the spending power granted by the constitution. The underlying purpose of the Act was to "restore the balance of power in fiscal matters between the Legislative and Executive Branches" (8:42).

> The 1974 Budget Act, of course, did not truly reform the budget process on Capitol Hill. It did not change the basic responsibilities and functions of the existing committees. Rather, it added a new layer on to an existing process.
> Norman Orstein, American Enterprises Institute (2:12).

The major provisions of the Budget Act are often grouped by title into four main areas which provide a natural division for discussion and explanation.

> Titles I and II establish Committees on the Budget in both the House and the Senate and a Congressional Budget Office to improve the Congress' informational and analytical resources with respect to the budgetary process;
>
> Titles III and IV establish a timetable and procedures for various phases of the congressional budget process;
>
> Titles V through IX amend the Budget and Accounting Act of 1921 and the Legislative Reorganization Act of 1946 and 1970 to provide for a new fiscal year, improvements in budget terminology and information to be included in the President's budget submissions, improved program review and evaluation procedures, and effective dates for the various provisions of the Act; and
>
> Title X establishes procedures for congressional review of Presidential impoundment actions (36:5-6).

<u>Title I</u> -- Establishment of House and Senate Budget Committees.

The two committees have identical duties set forth in Sections 101 and 102 of the Act:

1. Report to their respective Houses "concurrent resolutions on the budget" which provide the overall framework of the Congressional Budget, and report reconciliation bills that adjust appropriations to stay within the Congressional Budget;

2. Study and report the effects on budget outlays of existing and proposed legislation;

3. Request and evaluate studies of tax expenditures and methods of coordinating tax expenditures with direct budget outlays; and

4. Review the operations of the Congressional Budget Office (17:7).

The day-to-day operation of the appropriations and authorization committees is not dramatically affected. The Budget Committees are filters and focal points through which the older standing committees must now report their bills to Congress. One substantial change, destined to cause conflict, is the requirement for the standing committees to live within their approved budgets. If additional funds are required, they must apply to the Budget Committees for an additional allocation from an aggregate spending total agreed to in the second concurrent resolution (39:6). This one feature puts tremendous power in the hands of the Budget Committees.

One undisputed benefit to Congress of the Budget Committees is the additional research staff they provide. In concert with the Congressional Budget Office, this staff helps redress the imbalance of research and investigative power yielded to the Executive Branch with the creation of the Office of Management and Budget (8:54).

Title II -- Congressional Budget Office

The Congressional Budget Office (CBO) was created specifically to provide a counterweight to the Office of

Management and Budget. Its principal responsibility is to the Budget Committees who are in charge of its overall functioning. A secondary purpose is to provide information to other committees and individual members of Congress. Section 201d gives the CBO broad investigative powers.

> Relationship to Executive Branch.—The Director is authorized to secure information, data, estimates, and statistics directly from the various departments, agencies, and establishments of the executive branch of Government and the regulatory agencies and commissions of the Government. All such departments, agencies, establishments, and regulatory agencies and commissions shall furnish the Director any available material which he determines to be necessary in the performance of his duties and functions...(36:88).

The principal document generated by the Congressional Budget Office is the annual April 1 report that analyzes for Congress the president's executive budget. One of its most extensive portions outlines spending and revenue alternatives, and their projected consequences, for Congress to consider during the authorization and appropriation process. "Other important duties assigned to the CBO include scorekeeping reports on appropriations and revenue totals, preparing five-year budget projections, and making cost analyses of legislation prepared by all committees other than the appropriations committees" (8:57).

<u>Title III</u> -- Congressional Budget Process

Prior to the 1974 Act, there was no established, phased timetable for budget enactment. There was a tendency

to delay to the last moment on all decisions to hopefully provide Congress with the most options. A comment from the first director of the CBO, Dr Alice Rivlin, highlights the problem.

> Congress is indulging in self-delusion by thinking it has more flexibility if it waits until the last moment to make budget decisions. My own feeling is that you have far less then. One reason you don't have more major changes in policy is that by the time you get around to this year's budget, it's too late. You can't cut because contracts have been let; people are already employed; people are waiting for their benefit checks. And if you're trying to increase the budget, the money is already committed to other things or you can't gear up fast enough (8:71).

The timetable attempts to bring order from confusion and force Congress to act in a timely manner.

TABLE I

Congressional Budget Timetable Under the 1974 Budget Act

October, November, December	--Longer term, in-depth analysis of next year's issues by Budget Committee staffs and the Congressional Budget Office (CBO)
November 10	--President submits Current Services Budget
Late January	--President submits budget
January, February, March	--Budget Committee hearings on budget
No later than March 15	--All committees report spending and revenue estimates to Budget Committees

April 1	--Congressional Budget Office submits Annual Report to Budget Committees
No later than April 15	--Budget Committees decide on their own versions of budget and report to the floor
Late April	--Each House debates first budget resolution containing non-binding spending and revenue targets
No later than May 15	--Congress agrees to first budget resolution, allocates spending targets to committees
No later than May 15	--Congressional committees report new authorizing legislation; Appropriations Committees begin work on appropriations bills
June and July	--Spending bills reported to floor, measured against first budget resolution
Late Summer	--Budget Committee reviews economy and budget developments; prepares a second budget resolution
Labor Day + 7 Days	--Congress completes action on all spending bills
September 15	--Congress completes action on second budget resolution setting binding revenue floor and spending ceilings and allocates final spending levels to committees
September 25	--If necessary, Congress completes action on a reconciliation bill
October 1	--New fiscal year begins

(36:92, 2:13)

November 10th --The president sends Congress his estimates of what revenues and expenditures would be if no new legislation were enacted; the "Current Services Budget." It is a status quo budget based on existing law that provides Congress with a starting point when considering the president's executive budget submitted in January. (By mutual agreement, the Current Services Budget is now submitted with the executive budget in January.)

Fifteenth Day After Congress Convenes in January -- The president submits his executive budget, "his statement of national economic objectives that reflects his policies and spending priorities to achieve these objectives" (17:15). A significant change introduced by the 1974 Act is the requirement to include economic assumptions and budget projections for the current and following four fiscal years. Previously, Congress considered the current requests for authorizations without much thought to future consequences. This provision forces Congress to at least consider the effect its actions will have on outyear expenditures (17:16).

March 15 -- Committees and Joint Committees Submit Reports to Budget Committees. The congressional standing standing committees submit their estimates on the need for budget authority and outlays one month ahead of the reporting date for the first concurrent resolution. This gives Congress as a whole, and the Executive a clear view of what

the committee's priorities are for spending and revenue options (17:17).

April 1 — Congressional Budget Office Submits Report to Budget Committees. Previously discussed, this analysis of presidential budget and alternative spending and revenue priorities is designed to aid the Budget Committees in their deliberations. As a matter of practice, it is prepared and submitted to the Committees at the earliest possible date, usually in February.

April 15 — Budget Committees Report First Concurrent Resolution on the Budget to their Houses. The month following is concerned with extensive House and Senate debate on on the targets to be included in the first resolution.

May 15 -- Congress Completes Action on the First Concurrent Resolution on the Budget.

"The first concurrent resolution sets forth the following:

(1) the appropriate levels of total budget authority and outlays for the next fiscal year, both in the aggregate and for each major functional category of the budget;

(2) the appropriate budget surplus or deficit for the next fiscal year;

(3) the recommended level of Federal revenues and recommended increases or decreases to be reported by appropriate committees;

(4) the appropriate level of public debt and recommended increases or decreases to be reported by appropriate committees;

(5) any other matters deemed appropriate to the congressional budget process" (36:9).

"The report which accompanies the proposed concurrent resolution includes:

1. A comparison of the revenue estimates of the committees and that of the President;

2. A comparison of the committee estimates of appropriate levels of total budget outlays and total new budget authority to those of the President;

3. An allocation of total budget outlays and total new budget authority by function, each function divided between proposed and existing programs, with the latter further subdivided between, first, permanent and regular appropriations, and second, between controllable and uncontrollable amounts;

4. An allocation of the level of federal revenue among major sources;

5. The economic assumptions and objectives upon which the resolution is based;

6. Projections for a period of five fiscal years by function beginning with the budget year;

7. A statement of any significant changes in the proposed level of federal assistance to State and Local governments; and

8. Information, data, and comparisons on which the committee based the resolution" (17:20).

The following comment was contained in the House concurrent resolution describing the internal process and how it arrived at the budget for FY 76.

> The Committee's general procedure in developing the budget was as follows: first, tentative agreement on a probable revenue level, taking into account the House-passed tax reduction bill and likely final action on this bill; second, tentative agreement on budget authority and outlay levels for each of the sixteen functional categories of the budget; third, revisions of the revenue level to take into account employment-generating proposals agreed to

> by the Committee during consideration of the functional categories and the final action of the conferees on the tax reduction bill; fourth, final adjustments to the functional category totals; and fifth, final decision on the budget aggregates in the resolution and functional category estimates contained in this report (17:21).

A provision of the 1974 Act, designed to ensure timely compliance, is Section 303(a).

> An important feature of the new law prohibits the Congress from considering any bill that provides new spending authority, creates new entitlements, or changes revenues for the coming fiscal year, before the first concurrent resolution is approved. This feature was designed to avoid a situation in which a committee could take early action on a bill and commit the Congress before it has had a chance to consider the budget as a whole (8:65).

A corollary, Section 402(a), provides that after May 15th, no new authorizing legislation may be proposed, with certain exceptions. In practice, a waiver has been routinely granted, weakening this section.

Seventh Day After Labor Day -- Congress completes action on bills and resolutions providing new budget authority and new spending authority.

September 15 -- Congress completes action on second required concurrent resolution on the budget.

The second concurrent resolution establishes binding ceilings on expenditures and floors under revenues. Once this resolution is agreed to, no legislation that would violate the limits can be considered by either the House or

Senate (8:66). The estimates are for the aggregate budget, not each functional category. Funds can still be transferred among these elements of the budget without violating the intent of the Act (17:27).

September 25 -- Congress completes action on reconciliation bill or resolution, or both, implementing the second required resolution.

If there is a discrepancy between the appropriation bills reported and the aggregate ceiling previously agreed to, the Budget Committee will draft a reconciliation bill directing the committees involved to reconsider their needs and "recommend changes to laws, bills, and resolutions, as required to conform with the binding totals for budget authority, revenues and the public debt" (36:167).

> Upon completion of this process, neither the House nor the Senate can consider legislation that would cause the final budget authority or outlay totals to be exceeded or which would reduce revenues below the agreed upon level (8:66).

October 1 -- Fiscal Year Begins. All congressional budget action is to be completed by this date. In practice, this has been accomplished very few times in the past ten years.

Title IV -- Additional Provisions to Improve Fiscal Procedures.

Section 401(a) is the most important provision under this title: Legislation Providing Contract or Borrowing Authority. In 1984, approximately 75% of the entire Federal budget was considered uncontrollable, in that the government would have to provide funds for previously authorized entitlements, some of which were never acted on by the full Congress under the budget process. To gain control of this so-called "backdoor spending," this section requires that contract or borrowing authority must go through the entire authorization process. No longer will a standing committee be able to obligate the government without the amounts being considered as part of the overall budget total (8:73).

Title V -- Change of Fiscal Year

The fiscal year, which used to run from July 1 through June 30, was altered by three months to its current October 1 through September 30 period. The basic purpose was to give Congress more time to consider budget legislation. In recent history, Congress had relied on continuing resolutions to fund the executive agencies if the appropriation bills were not passed by the end of the fiscal year. The continuing resolution is viewed as a poor way to conduct the business of government.

> The continuing appropriation process does little to assure careful Federal planning. It helps to

> create an uneven funding pattern for Federal programs. Many may be funded late in the fiscal year so that Federal officials are forced to "use or lose" funds in a short period of time because funds not used by the end of the fiscal year revert back to the Treasury. Since 1964, the average delay between the beginning of the fiscal year and the passage of all appropriation acts has been over three months. In the last nine years, we have passed a total of only seven appropriation acts before the beginning of the fiscal year... (17:31-2).

Title VI -- Amendments to Budget and Accounting Act of 1921.

Title VII -- Program Review and Evaluation.

Title VIII -- Fiscal and Budgetary Information and Controls.

Title IX -- Miscellaneous Provisions; Effective Dates.

Each of the above four titles, although of academic interest, concern elements of the budget process outside the scope of this research. The reader is referred to reference 36 for the text of each title.

Title X -- Impoundment Control

This final title of the Congressional Budget and Impoundment Control Act is separable from the other nine titles and can be cited as The Impoundment Control Act of 1974 (36:80). It is a direct result of the confrontation with President Nixon during the early 1970's (8:74). It amends the Anti-Deficiency Act of 1906 which gave the president broad authority to impound appropriated funds.

Impoundments can be divided into two types, each with its own congressionally mandated procedures and limitations:

deferrals and recisions. A deferral occurs when a member of the Executive (president, OMB, or agency head) believes it proper to delay the use or obligation of appropriated funds.

Section 1011. For purposes of this part--

(1) "deferral of budget authority" includes--

(A) withholding or delaying the obligation or expenditure of budget authority (whether by establishing reserves or otherwise) provided for projects or activities; or

(B) any other type of Executive action or inaction which effectively precludes the obligation or expenditure of budget authority to obligate by contract in advance of appropriations as specifically authorized by law" (36:128).

The procedures the Executive is to follow are outlined in Section 1013(a) of the Act.

A recision is a permanent withholding of budget authority "whenever the president determines that all or part of the budget authority will not be required to carry out the full objectives or scope of a program due to fiscal policy or other reasons, or whenever all or part of budget authority provided for only one fiscal year is to be reserved from obligation for such fiscal year" (17:35). The Act is again specific on the procedures the Executive is to follow in Section 1012(a).

The discussion of the Impoundment Control Act closes the discussion of the fourth period in the historical background of the congressional budget process. No law is ever perfect or satisfactory to all parties. This is especially true of the 1974 Budget Act. Like its predecessor in 1921, it attempted to resolve many of the problems Congress faced with the budget process. Progress was made toward a product Congress could use to help regain control of the budget process. However, as the years pass, the need for further reform remains.

> Where spending exceeded overall limits, it would be cut back by a reconciliation bill. But in practice, the budget committees themselves became overwhelmed with detail. "All that has resulted," says political scientist Norman Ornstein, "is another layer of decision-making and therefore a diffusion of power" (1:35).

> It is virtually impossible for a newly organized legislative committee to properly consider the cost of dozens of programs under its jurisdiction and to report on the same to the Budget Committee with the time frame provided (13:23).

The substance of this thesis is the suggestions for budget reform and their impact on the congressional budget process.

III. Proposals for Reform of the Budget Process

The Congressional Budget and Impoundment Control Act of 1974 was designed to cure many of the deficiencies of the Budget and Accounting Act of 1921. The 1974 Act did not introduce radical change. Rather, it added structure to an existing process with a timetable for budget events, established a Budget Committee in the House and Senate to coordinate the process, formed the Congressional Budget Office to provide Congress with much needed budget data, and put curbs on the president's power to impound congressionally appropriated funds. It was hoped that this reform package would finally give Congress a workable budget process; and, more importantly, wrest control of the budget process from the Executive Branch. The failure to achieve this goal and the current suggestions for reform is the subject of this chapter.

The 1974 Act has been fully implemented only since the deliberations on the FY 77 budget (17:1). Nine years of experience has produced both avid supporters and harsh critics. Some would continue the current process relatively untouched and some would return to a time before the Budget Act (notably Senator Barry Goldwater, R, Arizona) (11:6). Between the extremes is a full spectrum of opinion as to the Act's success and the degree of reform needed (8:28). Political affiliation is not an

unfailing determinant of opinion. There are advocates and detractors on both sides of the aisle.

Enthusiasm for the Act and optimism for the future is embodied in President Nixon's statement when he signed the Bill on July 12, 1974:

> What this Bill is, is the most significant reform of budget procedures since the Congress and this country began. What this Bill does is to provide a means whereby the Congress and the executive, not only now but in the administrations to come, will work together to keep the budget from getting out of control (17:3).

The initial euphoria lasted only a few short years. Budgets were growing larger in the aggregate, deficits were soaring, and President Reagan was having a great deal of success with his efforts to use the budget process to further his views of the country's priorities. Congress sensed that its control of the budget process was slipping away.

> Congressional satisfaction with and opinion of the Budget Act was changed drastically by two events: First, during 1981, the reconciliation process established by the Act was shifted from the second concurrent resolution to the first. The resultant omnibus budget reconciliation act implemented major changes in federal budget policy as recommended by President Reagan, including fundamental changes in the role of the federal government on domestic spending. The use of the reconciliation process by the Executive generated heated debate. Second, in 1982, an analysis of the current policy budget--the budget that would result from the spending and taxing levels mandated by the current law--indicated, for the first time, that the size

of the deficit would continue to grow under current policy regardless of what happened in the economy. Under such conditions, Congress was forced into a Hobson's choice: either cut spending, increase taxes, or accept growing deficits (2:29).

Specific criticism of the 1974 Budget Act centers in three areas: coverage, controllability, and enforceability (2:30). Most of the proposed reforms fit within one or more of these categories.

Coverage. The Unified Federal Budget, a concept in use since 1969 (see Glossary), does not include many substantial flows of money controlled by the Federal government. Tax expenditures, Federal credit programs, and so-called "off-budget" activities are not a part of the budget. This limitation, according to many in Congress, distorts the true involvement of the government in the economy. Omitting these activities tends to hide the actual amount the government spends and the true amount of the deficit (4:10).

Controllability. Seventy-seven percent of the FY 1984 Federal budget was termed "uncontrollable." That is, unless a law or policy were changed, Congress had no direct, immediate control of the dollar outflow represented by over three-fourths of the budget. The money would be spent whether or not Congress met to consider a budget. The 1974 Budget Act was partially intended to reverse this trend. It has only helped to slow the growth of uncontrolled spending (7:27).

Enforceability. Rules and resolutions passed by Congress for its own internal use, and even bills signed into law by the president, are very difficult to enforce. If a House rule is violated, and no member complains, there is no remedial action taken (11:4). The end result is that Congress cannot be compelled to do what it does not want to do. (A corollary, if Congress as a whole decided to have a balanced budget and to enforce discipline in the budget process, it would be done.) The timetable established by the Act was an attempt to at least provide a target for what should be done to produce a well-considered and timely budget.

A secondary, but almost equally important, criticism of the Budget Act, is its complexity and the time required to complete the entire budget process (2:32-4, 35:36). Estimates vary, but between sixty and eighty percent of the congressional calendar is occupied by the budget process (8:27). Senator John Tower, Chairman of the Armed Services Committee:

> For now, I can only say that it is getting somehat embarrassing, in responding to questions about reform of this budget process, to explain that we are so bogged down in the process that we haven't got the time to consider changing it (32:7).

In 1982, the Budget Committees in both houses of Congress began hearings on the 1974 Budget Act. The expressed

objective was to survey the full range of proposals for budget reform. Opinion was solicited from private and congressional sources. The hearings continue, intermittently, to this date. The only general consensus is that something needs to be done. At one extreme is drastic reform, such as Senate Joint Resolution 58 for a constitutional amendment to require a balanced budget. At the other, are minor rules changes designed to streamline the internal workings of Congress.

The prospects for radical change are quite small, at least prior to the 1984 elections. Time is short and Congress is occupied with conventions and re-election. The process itself may not even be the problem. A reasoned opinion from Senator Mark Hatfield (D. Oregon), Chairman, Committee on Appropriations, isolates the central issue:

> There is general agreement that the budget process needs improvement. The huge Federal deficit has added to this interest, and generated a greater sense of urgency to the debate on what ought to be done. That debate, and the proposals being offered, unfortunately, are all over the ball park, and this in turn has blunted the expectation that much will be accomplished soon. Furthermore, I and a number of other members believe that the current deficit crisis cannot be solved by changes in the budget process, and that more attention ought to be paid to the substance of our decisions on the budget, not how we procedurally make them (18:1).

There are three limits on any reform measure that must be kept in mind during any discussion:

1. The current structure of Congress (the committee system) will remain largely unchanged.
2. Any changes to the process will be evolutionary rather than revolutionary.
3. There is a strong congressional disinclination to concentrate too much power at crucial decision points within the system (29:73-5).

Given these constraints, prevailing opinion supports a move to reduce the time involved in the process and to the regain for Congress control of the budget function. The remainder of this chapter discusses the major proposals for reform. The list is not exhaustive. No attempt is made to include ideas that have no support within Congress. The realistic is stressed over the ideal.

> In the legislature, as in the executive, and probably not more so, budget-making is a political process, conducted in a political arena for political advantage. The legislature, like the budget, will reflect the integrating forces in a government which produce something that may be called city, or state, or national policy (6:307).

<u>Elimination of the Second Concurrent Resolution</u>

The 1974 Budget Act (Sec. 301.) requires the Budget Committees to prepare by April 15 and the Congress to pass by May 15 a first concurrent resolution on the budget. The resolution sets targets for the congressional committees to work with during deliberations on appropriations. There is no binding ceiling on specific expenditures. It is left to

the second concurrent resolution, due to be passed by September 15, to fix binding ceilings on expenditures and floors under revenues. Only once, in 1977, was the schedule met. In the last three years, there was no second resolution. The May 15 totals were made binding and continuing resolutions were often used to fund the executive agencies.

This reform measure was adopted through legislative action for the FY 1982 budget. Provision was included in the first resolution that if a second resolution was not passed by October 1, the May 15 totals would automatically apply. The current proposal is to amend the Budget Act to make it a permanent feature of the budget process.

> I think there have been a number of lessons that have emerged. The original concept of the Budget Act was a multistep process in which the Congress, first, set targets at the beginning; next, went through the individual spending and taxing legislation; and then made the final and apparently, if one reads the original draft of the act, the most important decisions at the end of September. I think we have all learned that procedure is not workable; that important decisions must be made early in the year if there is to be time to implement them; and that the first resolution has emerged as the most important decision-making vehicle (37:116).

Senator William V. Roth, Chairman, Senate Governmental Affairs Committee:

> I believe it is increasingly clear that Congress attempts to make too many decision each year and that many of these decisions are redundant. Last year, which I assert was typical rather than unusual, Congress passed a revised second budget

> resolution for fiscal 1982, a budget reconciliation bill, several appropriations bills, two continuing resolutions, a second budget resolution, and a supplemental appropriations bill. It is easy to see how these measures, Mr. Chairman, dominated the congressional schedule. I contend that many of these decisions are matters which could logically be combined or eliminated (37:203).

A binding first resolution, although opposed by the appropriations committees, is favored by most members of Congress.

1. Most issues are settled by the time the first resolution is passed.
2. The second resolution is too close to the start of the fiscal year to change anything. Most changes have historically been made in a third resolution, later in the fiscal year.
3. Binding totals give everyone a clearer idea of what to work toward early in the legislative session. A nonbinding first resolution is not taken seriously by a significant portion of Congress (35:110).
4. A second resolution, with its lengthy committee and floor discussion, takes too much time. The time would be better spent in appropriation and oversight.
5. The original purpose of the second resolution is hazy. It was probably a result of a "turf" fight between advocates of the budget committee concept and the current members of the authorization and

appropriations committees who saw the second resolution as a way to recoup some of their lost powers in the new process (37:6).

Opponents of this reform cite three reasons for keeping the second resolution:

1. Eight years of experience is not enough to warrant a radical change to the process.
2. A second budget resolution, passed in the fall, just before the legislators recess, keeps them honest. If a large deficit is approved, it makes explaining to their constituents that much more difficult.
3. Economic assumptions are often proven wrong between May 15 and September 15, or, conditions can drastically change to adversely affect spending priorities (37:83, 35:77-9).

A Common Set of Economic Assumptions

> One admitted weakness of the current budget process is the confusion generated by conflicting budget numbers. This confusion arises because revenues, expenditures and deficit estimates depend, not only on policy differences, but also on economic and technical assumptions (35:14).

The president is required to submit his current services budget on November 10 each year. Economic and program assumptions used in formulating the budget must be a part of that submission. From that point, until the conclusion

of the budget cycle ten months later, three more sets of economic assumptions may be applied in the authorization and appropriation process. The Congressional Budget Office produces one set of numbers during its assessment of the president's budget, and it is not unusual for each Budget Committee to develop its own assumptions (2:48).

These differing numbers make the budget more confusing for both the congressional participants and the general public than it would be if a common set of assumptions were used.

> This means, as Congressman Leon Panetta complained, debates that should be focusing on policy issues often collapse into frustrating disputes over who is starting from where on what baseline (2:25).
>
> You know we have gone through some conferences, and very few people understood the finished product because we had different economic assumptions at the start and, therefore, the numbers are dramatically different, not by way of programs but by way of the effect of the assumptions (37:134).

Politics and human error also contribute to the problem. The president, as advocate of his budget programs, is likely to choose the forecasts most favorable to his proposals. The Congressional Budget Office usually chooses the midpoint of an admittedly very uncertain range of predictions. And, Congress can come in anywhere along the continuum (37:133). The problem is recognizable, but difficult to solve.

The suggestion has been made that the CBO and OMB should get together and come up with a common set of assumptions. Discussed by their respective directors, it was agreed that this was a good idea, but not feasible. The effort would lead to too much compromise and gaming, the end result of which would serve neither organization (37:133). Virtually all participants agree that a common set of numbers would reduce the confusion in Congress and with the public. Not everyone agrees that something would not be lost in the process.

Robert D. Reischauer, of the Urban Institute, makes a case for leaving well enough alone. In his view, common assumptions would:

1. Reduce the flexibility of all participants--the administration to be optimistic, the Congress to be pessimistic.
2. Reduce the visibility of the assumption-making process. Result: deterioration in the quality of the assumptions.
3. Provide a false sense of security that the compromise assumptions were really what would occur.
4. Be too difficult to get all parties to agree to an original compromise set of numbers and the inevitable series of updates (35:14).

Mr. Reischauer would mandate only definitions and concepts.

The situation may soon ensure that common assumptions are used. Tried successfully in the fiscal year 1983 budget deliberations, the need is there when a one percent increase in the rate of unemployment can cut revenue by $12 billion and increase expenditures by $5 billion, or when a one percent increase in inflation can increase revenues by $5 billion and expenditures by $1.3 billion (37:168). Table II shows the assumptions for FY 83 through 1989.

TABLE II

Summary of Economic Assumptions

(Calendar years)	1983	1984	1985	1986	1987	1988	1989
Gross National Product (in billions of current dollars)..........	3309	3642	3974	4319	4681	5059	5445
Change in constant dollar GNP (%) change over FY)...	3.3	5.3	4.1	4.0	4.0	4.0	3.9
Inflation measures (% change, FY over FY):							
GNP deflator.....	4.3	4.3	4.9	4.6	4.3	4.0	3.7
Consumer Price Index...........	3.4	4.0	4.5	4.6	4.3	4.0	3.7
Federal construction deflator...	0.8	4.7	5.3	5.0	4.6	4.3	4.0
State and local purchases deflator..........	6.7	4.7	5.4	5.0	4.7	4.4	4.0
Unemployment rate (% 4th Qtr).......	9.5	7.8	7.6	7.3	6.8	6.1	5.7
Int rate, 91-day Treasury bills (%)	8.6	8.5	7.7	7.1	6.2	5.5	5.0
Int rate, 10-year Treasury Notes (%)	11.1	10.3	9.2	8.6	7.2	6.1	5.5
Federal Pay Raise October (%)......	3.5 (1)	4.7 (2)	5.6	5.8	5.5	5.3	5.1

(1) The 1983 pay raise is effective January 1984.
(2) The budget proposes a 3.5% increase in civilian employee pay and a 5.5% increase in military pay, both effective in January 1985. (24:A2)

Repeal of All or Part of the 1974 Budget Act

Until 1921, Congress was without a formal budget process. The authorization, appropriation, and revenue committees performed essentially the same functions as they do under the 1921 and 1974 Budget Acts without benefit of a formal structure. The process worked reasonably well. In the view of Senator Barry Goldwater the Congress should return to that time. His Bill (S. 1783) would retain the Congressional Budget Office and Title 10, The Impoundment Control Act, but essentially eliminate the budget process dictated by the 1974 Act (11:6).

Although support for this measure is rare in public rhetoric, there may well be substantial deep-seated agreement. The authorization and appropriation committees have seen their power diminished by the Budget Committees. This created a continuing intramural antagonism (37:22). In addition, a body of reasoned opinion holds the formal budget process as cause rather than cure for many budget problems currently facing Congress (35:96-7). The Senate Study Group on Practices and Procedures recently recommended elimination of the Budget Committees (11:6).

"Off-budget" Activities

Definition: Off-budget entities are federal organizations or programs that belong in the budget under current accounting concepts but that have been excluded from the budget totals under provisions of law (25:86).

The cost of operating each of the agencies contributes to the real deficit but is not included in the Unified Federal Budget. A political decision by Congress, the practical effect is to shield these agencies from the annual authorization and appropriation process.

In fiscal year 1974, the total off-budget agency spending was $1.4 billion. In fiscal year 1985, the budget proposal request is for $14.8 billion (24:A-18); after reaching a high of $21 billion in fiscal year 1981 (35:77). The majority of this amount is due to the activity of the Federal Financing Bank, which buys debt issued by other governmental agencies. Funds to support these purchases come from direct borrowing from the Treasury.

There is a general consensus that these off-budget agencies "should be reflected in the budget deficit even though this would cause the official budget deficit to be larger" (14:8). Currently, the unified budget deficit is the figure usually discussed in the media and by many members of Congress. The off-budget agency deficit is added almost as an afterthought. Although a small percentage of the total deficit, off-budget spending is part of the larger issue of whether to include all revenues and outlays in the Unified Federal Budget for better visibility and control purposes.

The periodic drives for spending limitations had a number of adverse side effects on the ability of

> Congress to control federal expenditures. For one thing, the preferential treatment of uncontrollable costs gave Congress additional incentive to protect favored programs by makng them uncontrollable. Congress also shielded certain programs against spending limitations by placing them "off-budget," a status that excluded their expenditures from the budget totals and, therefore, from any limitations on spending (30:42-3).

H.R. 5257, a recommendation of the Rules Committee Task Force on the Budget Process to amend the 1974 Budget Act, specifically addresses off-budget agencies in Sec. 406(a)(b)(c).

> Sec. 406. (a) Notwithstanding any other provision of law, budget authority, credit authority, and estimates of outlays and receipts for all activities of the Federal Financing Bank, the Rural Electrification Administration and Rural Telephone Bank, the Strategic Petroleum Reserve Account, the United States Synthetic Fuels Corporation, and the United States Railway Association, the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund shall be included in a budget submitted pursuant to section 1105 of title 31, United States Code, and in a concurrent resolution on the budget reported pursuant to section 301 of the Congressional Budget Act of 1974 and shall be considered, for purposes of such Act, budget authority, outlays, and spending authority in accordance with definitions set forth in such Act (34:48-9).

As of this writing, H.R. 5247 is still being considered by the House Committee on Rules.

<u>Reconciliation as a Part of the First Concurrent Resolution</u>

The first concurrent resolution on the budget was designed to establish spending targets and the second concurrent resolution was to establish binding ceilings on expenditures and a floor under revenues. In recent years, the second resolution has been largely unused and the first resolution "targets" have become binding. The reform suggested is to amend the 1974 Budget Act and formally provide for what is occurring in actual practice: eliminate the second budget resolution altogether and make reconciliation part of the first resolution.

Invoking Section 301(b)(2) of the 1974 Act, which allows the first concurrent resolution "to contain any other procedure which is considered appropriate to carry out the purposes of this Act" (36:93), Congress implemented this reform without actually amending the basic budget process. First the Senate in 1979, and then both Houses in 1980, used reconciliation to align committee spending with budget resolution ceilings. It worked well, but generated substantial controversy.

> The reconciliation process has been one of the great benefits of the 1974 law. It was, however, never envisioned to play the role it does now. If we had not had reconciliation for the past 3 years, we would have had to invent it for it has been indispensible to making the hundreds of billions of dollars in savings we have achieved these past 2 years....It has imposed on committees a discipline that some have found difficult to meet. Yet it has been the key tool at our disposal (37:213).

As originally conceived, reconciliation was the "enforcement mechanism" of the entire budget process. Without it, the system would not work (37:80). It is a passive device. Only when the total of the legislation submitted by the authorization, appropriation, and revenue committees exceeds the ceilings in the concurrent resolution does the reconciliation process come into effect. When the limits are violated, the Senate Budget Committee (the Rules Committee in the House) adds reconciliation instructions to the budget resolutions. These instructions direct the committees who exceeded their ceilings to report implementing legislation to their respective Houses. The Budget Committees then combine the various measures into a reconciliation bill to be voted on by the entire body. This process allows the entire Congress to decide what spending levels it wants, not the individual committees (35:84).

The controversy, with a substantial portion coming from the Appropriations Committee (2:58), is based on three main criticisms of reconciliation.

1. The reconciliation process was intended to be a close-out feature of the budget process. Congress would have ten days, September 15 to September 25, to enact reconciliation actions if the second concurrent resolution limits were violated. It was never intended to be a part of the first concurrent resolution.

2. Reconciliation should not include authorizations, but be restricted to appropriations in new or past legislation.

3. The reconciliation bill should not include non-budget legislation as it did in 1981 (35:134).

4. The authorization and appropriation process has been "turned upside down. Changes in authorizations are decided before the Committee on Appropriations ever sees the totals required" (2:58).

Proponents of the reform cite its many advantages:

1. Ten days in September is too late in the process and too short a time for reconciliation to work.

2. Placing reconciliation in the first resolution allows the committees full knowledge of the imposed limitations they must work within. It speeds up the process and helps prevent duplication of effort (35:110).

H.R. 5247, the major legislative effort to formally amend the 1974 Budget Act, specifically addresses the reconciliation process by:

1. Allowing reconciliation in any budget resolution.

2. Prohibiting reconciliation of authorizing legislation.

3. Permitting the Rules Committee to submit changes to legislation to meet the ceilings if the committee with jurisdiction fails to do so.

4. Requiring completion of reconciliation prior to adjournment by specified dates (34:36). Note: This provision is part of the original Budget Act, but H.R. 5247 adjusts these dates to reflect the reconciliation process being part of the first concurrent resolution.

The third provision is possibly the most important. The underlying concern with the reconciliation process is that it is currently legally unenforceable. A few committees have balked at the directives from the Budget Committees and failed to meet their spending ceilings. Success has come through the general consensus that budget cutting was necessary and cooperation essential (35:94).

The Biennial Budget Process

As criticism of the current budget process has increased, one of the more radical departures suggested is to put the Federal budget process on a two-year cycle. The specific proposals range from merely stretching out the current timetable, leaving the process essentially intact; to a complete reordering or deletion of procedures. There is no unanimous support for any one approach, but the discussion on the basic idea is ongoing.

The case for a change to a biennial process from Senator Quayle (D. Indiana) and Dr. Alice Rivlin, former director of the Congressional Budget Office:

> I believe it is essential that we seriously attempt to reform the federal budget process now. The system has become so unwieldy and time-consuming that it barely leaves any time for normal legislative activity. Under current procedures, the system is in the danger of complete collapse (28:5).

> In the rush to review $750 billion (in 1982) worth of programs, pass the requisite thirteen appropriation bills, and two budget resolutions each year, programs are rarely, if ever, carefully evaluated (28:7).

> ...no matter what you do, you have the horrendous problem of how to cut the budgetary workload down to a manageable size. Congress makes too many decisions, and makes them too often. You cannot get everything done in the time allotted, no matter what you do. I am not sure there is a solution to this problem, but one that I think is well worth considering is moving to a biennial budget with the object of cutting the budgetary decision load approximately in half and making better decisions in the process (37:118).

Proponents of a two-year budget cycle, such as Charles A. Bowsher, Comptroller General of the United States, cite its four main advantages. "If effectively designed and implemented, it would:

1. Allow more time for congressional decision-making and oversight.

2. Reduce the number of times the Congress must act on the same programs.

3. Provide more time for long-range planning.

4. Provide an opportunity for better budget analysis, financial and operational planning, budget execution, and program review by both the Congress and the executive branch" (37:154).

Those opposed to a change in the process cite the disadvantages:

1. It would congest the congressional calendar rather than decongesting it. "The calendar might be filled even more than it is now with supplemental appropriations, revisions of budget resolutions and other 'corrective' actions" (14:4).

2. Many decisions would be outdated by events over a two-year period.

3. Congress needs the pressure of constant deadlines to enable it to make decisions (14:4).

4. "Economic assumptions, currently made over 18 months in advance, would be required 30-36 months ahead in a two-year cycle. Accuracy would be highly suspect" (37:101).

5. "Congress now has difficulty in enacting annual bills on a timely basis, changing the schedule may have little effect other than altering when they are late" (18:3).

Many other congressmen are undecided, but seem to agree with the approach proposed by Senate Budget Committee Chairman Pete Domenici: "Let's try it out in a pilot test before going across the board with it" (14:4). One alternative would be to place more authorizations and appropriations on a two-year cycle (14:5).

Among the proposed amendments in this 98th session of Congress (S.12, S. 95, S. 922, S. 20, and H.R. 750), those

placing appropriations in the first session of Congress and authorizations and oversight in the second session appear to hold the most promise of enactment. The main political reason is the desire of each new Congress or president to enact their own economic programs as soon as possible, instead of waiting for a two-year cycle to run its course (35:86). With appropriations in the first session, the Congress could better express its unique priorities and exert its will on the new budget.

Change the Fiscal Year to Coincide with the Calendar Year

The 1974 Budget Act changed the fiscal year by three months from July 1 - June 30 to October 1 - September 30. This was done to partially answer the criticism that there was never enough time to complete the budget, even under the 1921 Act; and due to a realization that the addition of two Budget Committees would further lengthen the process. Though not a panacea, the extra three months was viewed as giving Congress the time to consider each piece of legislation and perform its often neglected role of oversight (8:44).

There are two advantages to a change in fiscal year. Currently, the three-month difference in start dates creates confusion with the public. The concept of fiscal year is not altogether clear. If the two coincided, the understanding and credibility of the process would be increased

(37:102). The extra three months would also give Congress additional time to conscientiously enact the complete budget and avoid the all too common continuing resolutions. An argument against the advantage by Rudolph Penner, Director of the Congressional Budget Office:

> I suspect that even though you would give the process three more months to do its duty, as it were, you would still find yourself, many times when the fiscal year began without appropriations in place (35:33).

The disadvantage to a change is really an extension of an already unavoidable problem. Agency budgets are drawn up under a set of economic assumptions current as of the time of formulation, usually at least a year in advance of the start of the fiscal year. Since economic conditions are subject to change over the short run, the additional three months could further distort original estimates and amounts appropriated would be even less likely to meet current needs (8:45).

The Capital Budget

The concept of a capital budget is based on one fundamental idea: outlays for investment-type items should be financed by debt and outlays for current operations should be financed from current revenues. The Federal government has never had a capital budget, but there have been several bills introduced "to amend the Budget and Accounting Act of

1921 to require the President to include a capital budget in his January budget proposal" (11:10). Table III illustrates the capital budget concept.

TABLE III

Illustration of a Capital Budget

Billions of dollars

Expenditures		Receipts	
	Current account		
Purchases of current goods and services	130	Corporation income tax	80
		Individual income tax	120
Transfer payments	50		
Grants-in-aid to state and local governments	40	Other	40
Depreciation on government assets	40		
Total	260	Total	240
	Deficit in current account	-20	
	Capital Account		
Purchases of government assets	100	Sales of government assets	10
		Transfer from current account for depreciation	40
Total	100	Total	50
	Deficit in capital account	-50	
	Capital budget deficit	-70	

(26:19)

Proponents of capital budgeting cite its prime advantage as eliminating the controversy of whether we should finance current operations by incurring debt and thus pass on the ultimate expense to be paid by later generations. Since investment-type items, financed by debt, would be around for future taxpayers to use and enjoy, the onerous nature of postponing the payments would be largely eliminated. The separation of capital and current needs is also

viewed as helping Congress better decide on budget priorities (11:10).

Adversaries of the measure, in a substantial majority, feel it would give the large spenders in Congress a means to hide ever larger deficits. By redefinition, any mix of capital and current assets could be created to suit the immediate purpose (26:19-21). The "current" budget could be brought into balance and a sizeable deficit hidden in quasi-capital expenditures.

A Constitutional Amendment to Balance the Budget

The appeal of a balanced budget is not new. It seems to make economic sense to spend no more than you take in. This concept was of little relevance in the days of constant budget surplus when the major problem was how to spend the money generated by the tariff. Today, with annual deficits approaching $200 billion and no remedy in sight, the desire for a balanced budget--or a surplus to retire some of the $1.3 trillion debt--has grown stronger. On August 4, 1982, Senate Joint Resolution 58 was passed. The text follows.

S.J. RES. 58
AMENDMENT TO THE CONSTITUTION
as proposed by the U.S. Senate on
August 4, 1982

Article --

SECTION 1. Prior to each fiscal year, the Congress shall adopt a statement of receipts and out-

lays for that year in which total outlays are no greater than total receipts. The Congress may amend such statement provided revised outlays are no greater than revised receipts. Whenever three-fifths of the whole number of both Houses shall deem it necessary, Congress in such statement may provide for a specific excess of outlays over receipts by a vote directed solely to that subject. The Congress and the President shall, pursuant to legislation or through exercise of their powers under the first and second articles, ensure that actual outlays do not exceed the outlays set forth in each statement.

SECTION 2. Total receipts for any fiscal year set forth in the statement adopted pursuant to this article shall not increase by a rate greater than the rate of increase in national income in the year or years ending not less than six months nor more than twelve months before such fiscal year, unless a majority of the whole number of both Houses of Congress shall have passed a bill directed solely to approving specific additional receipts and such bill has become law.

SECTION 3. The Congress may waive the provisions of this article for any fiscal year in which a declaration of war is in effect.

SECTION 4. Total receipts shall include all receipts of the United States except those derived from borrowing and total outlays shall include all outlays of the United States except those for repayment of debt principal.

SECTION 5. The Congress shall enforce and implement this article by appropriate legislation.

SECTION 6. On and after the date this article takes effect, the amount of Federal public debt limit as of such date shall become permanent and there shall be no increase in such amount unless three-fifths of the whole number of both Houses of Congress shall have passed a bill approving such increase and each bill has beome law.

SECTION 7. This article shall take effect for the second fiscal year beginning after its ratification. (9:XIV)

(A House equivalent, H.J. Resolution 350 remains in committee.)

Resolution 58, a proposal to amend the constitution, is a recognition by the Senate that the general public wants at least a semblance of a balanced budget (37:217, 14:11) and that past legislative and procedural methods have not produced the desired degree of fiscal discipline.

> The proposed amendment is designed to accomplish two purposes: to encourage the adontion of balanced instead of deficit budgets, and to limit the size of the federal government as a proportion of the total economy (9:1).

Largely in response to the successful adoption of this Resolution (the Senate vote was 69-31) the Budget Committees in both houses initiated hearings on proposals to improve the budget process. The prevailing opinion of the witnesses was that a constitutional amendment was not necessary; that legislative reforms could accomplish the same purpose. The hearings have continued into the 98th Congress with, as yet, no major changes passed by either House.

Pressure for a constitutional amendment has come from many directions. Prior to Resolution 58 passing in 1982, 31 state legislatures had petitioned Congress to "take some kind of action that would result in a constitutional amendment favoring balanced budgets" (9:1). Congressmen, themselves, introduce a constant stream of proposals to improve the budget process. Many of these involve a constitutional

amendment. President Reagan, in his FY 85 budget message, requested Congress to initiate a constitutional amendment to balance the budget.

> Congress has each year enacted a portion of my budget proposals, while ignoring others for the time being. It is moving slowly, year by year, toward the full needed set of budget adjustments. I urge the Congress to enact this year not only the proposals contained in this budget, but also a constitutional amendment providing for a line-item veto and for a balanced budget--rather than the fitful policy of enacting a half-hearted reform this year, another next year, and so on. (23:M7).

The proponents of a constitutional amendment admit that their primary motivation in such a radical approach is their frustration with the current budget process (37:217). The 1974 Act raised great hopes that it would be a solution to an inherent spending bias in the Congress.

> The premise of the proposed amendment is that there is a structural bias within our political system that causes higher levels of spending than desired by the citizenry, not that a majority of Members of Congress are determined to engage in fiscally irresponsible practices. Senate Joint Resolution 58 is designed to enable Members of Congress to overcome this bias by establishing an external constraint upon the ambitions of their fiscal responsibilities (27:242).

A secondary benefit, to those who want less government involvement in the economy, is the attention it would focus on the budget process and the concurrent growth of the Federal government (9:2).

There are numerous reasons cited against a constitutional amendment, not the least of which is the time involved to get it passed and then the lengthy development of legislation to implement it. The mechanical difficulties aside; those directly involved with the budget process, and congressional commentators, have their own reservations.

1. Congress will not do anything it does not wish to do. There are too many ways to thwart the intent of an amendment:

   a. Capital budgeting

   b. Backdoor spending

   c. Off-budget borrowing (35:57).

2. Once an amendment is in place, what if it proves to be a cure worse than the disease? It is difficult to undo an amendment. At the very least, the same measures proposed in the amendment should be tried through statutory means to see if they work (35:4).

3. Partially mechanical, who is to determine the penalties for violation? Who will determine the economic assumptions used? Who would enforce the penalty for violation? Would the Supreme Court then become a forum to determine economic priorities (35:67-9)?

4. "A deficit can help moderate income losses during a recession, thereby lowering the risk of a deeper decline in the economy. A budget forced to be in surplus or balance during a downswing in the business cycle would harm rather than help the faltering economy" (9:5).

Depending on political or economic bias, the arguments can be persuasive on either side. There is an underlying presumption in most discussions that balanced budgets are inherently good, and that deficits are inherently bad. Given that, the argument turns on how to achieve the balance. However, not everyone agrees that deficits are evil. According to Arthur Smithies in 1946,

> In fact, practical experience seems abundantly to confirm the economic argument that annual budget-balancing is neither a workable nor a desirable rule in an economy exposed even to normal economic fluctuations.
>
> The need for government expenditure programs does not run parallel to business activity (31:438-9).

Many present day economists agree with him. Even if a constitutional amendment were passed, there is some doubt as to its ultimate effectiveness. Senator Pete Domenici, Chairman of the Senate Committee on the Budget, states this point quite clearly:

> Nothing we do to the Constitution or to the Budget Process will guarantee that Congress will produce a balanced budget as we now define it. The problem of getting a balanced budget is not primarily a procedural one. It is in large part a problem of political will (14:11).

USA Today carried an article of note on April 10, 1984, about the way we measure presidents versus balanced budgets. The survey, conducted by economist John F. Walker, of Portland State University, indicated that the presidents rated

by historians as great and near-great never had a balanced budget. Those who were rated as failures always balanced the budget. His reasoning on why that occurs:

> Presidents who attempt to balance the budget are behaving in a reactionary way--cutting back, avoiding initiatives, doing little. That's not the kind of activity that you'll be remembered for in history (21:38).

<u>Changes to the Budget Committees</u>

The structure of the Budget Committee is not identical in each House of Congress. The membership of the Senate Budget Committee is permanent and chosen from the entire Senate, whereas the House Committee has rotating membership chosen from a select group of standing committees. The House Committee is designated a "major" committee as contrasted with the Senate, where it is designated a "minor" committee. These differences did not occur by accident, but were the result of specific political compromises during the discussions leading to the 1974 Budget Act.

Membership of the Senate Committee on the Budget is permanent and chosen from among the entire 100 member body by party conference in the same manner as other standing committees. This leads to a more stable membership, greater experience of those serving, and greater commitment to the committee itself (37:103). The House Committee on the Budget membership is limited by the 1974 Act and subsequent legislation to no more than six years in any ten-year

period. In contrast to the Senate, this leads to instability and a membership that views their stay as transitory, or a stepping-stone to other committee assignments (30:102-3). The reform suggested is to revise the 1974 Budget Act and make the House Budget Committee membership permanent. There is little current sentiment for this change.

The second subtle difference is the designation of the House Budget Committee as a "major" committee, while in the Senate it has "minor" status. The distinction works against those in the Senate whose members are limited to two "major" committee assignments. Committee members tend to view their Budget Committee assignment with a low priority when they sit on two other major committees (37:102-3). Attendance at the September 1982 hearings on the budget process may indicate this point. Much of the testimony was presented before only four to six members of the twenty-two member committee. Increased credibility of the committee and greater commitment of its members would be the likely result of a redesignation (37:102-3). It would also aid in dis-discussions with other committees to be on an equal footing.

Two other possible reforms are more drastic and would require a great deal of selling before any hope of enactment. To increase efficiency, a growing body of opinion would combine the Budget Committee with the appropriation committees (37:104). A further step would be to combine the

functions of authorization, appropriation, and budget into one super committee in each house.

> Serious consideration ought to be given whether or not we really need a separate authorization and appropriation process, and whether their consolidation might not result in a reduction in the Congressional workload, and in more cohesive and clear statements of legislative intent (32:8).

No change is forthcoming soon in this area due to political realities:

> The major functional components of the congressional budget process are divided among numerous committees, yet it is a basic assumption of this analysis that reform of the process--including greater coordination or amalgamation of the units performing these functions--must begin with an appreciation of the realities of power in the congressional standing committee system (29:18).

Enforcement of Budget Resolution Ceilings

The 1974 Budget Act (Sec. 311) provides restrictions once the Congress has completed action on the concurrent resolution and any needed reconciliation process for a fiscal year:

> ...it shall not be in order in either House of Representatives or the Senate to consider any bill, resolution, or amendment providing additional new budget authority for such fiscal year...or reducing revenues...if the enactment of such bill or resolution...would cause the appropriate level of total new budget authority ...to be exceeded, or would cause revenues to be less than the appropriate level of revenue set forth in such concurrent resolution (36:107).

This provision has been successful in reducing legislation that attempts to by-pass the normal authorization and appropriation process. The problem remains of bills introduced early in the legislative session after the first concurrent resolution has been passed. These bills, if passed quickly, are not affected by Section 311 limitations since they don't exceed the budgetary ceiling. They do have the effect of:

1. Rewarding speed of passage rather than thorough consideration (35:81).

2. Prejudicing bills already in the budget resolution totals that come up for consideration late in the session. If their passage would violate the budget ceilings, they could possibly be reduced or remain unfunded (37:50).

3. Leading to an unavoidable breach of the budget resolution ceilings. Popular or vital legislation, especially late in the session, will likely be passed regardless of its affect on the budget ceiling (37:50).

One reform already used on a trial basis, is to enforce the budget allocations (Sec. 302) of each committee and subcommittee. Any bill reported by a committee that exceeded its allocation would be automatically subject to a point of order (34:13). The result:

1. Better enforcement of the budget process. Each committee would be forced to live within its allocation

unless it could obtain a waiver of the point of order. (This is an inherent weakness. Waivers have been relatively easy to obtain in the past.)

2. The Budget Committee would be able to stay out of the authorization and appropriation process and deal only with number totals rather than specific policy considerations.

3. Equity. Each committee could only use its own allocation (35:83).

A second reform would hold each appropriation measure as it was passed until the end of the legislative session. Then, the totality could be compared against the previously agreed to budget ceilings and the entire Congress would go through a form of reconciliation process with the new legislation. It would have the advantage of allowing Congress to decide budget priorities under conditions current at the time of passage of the omnibus appropriations bill, rather than piecemeal throughout the session (37:179).

The Presidential Line-Item Veto

Under current law, the president has a veto power which extends only to the complete bill before him. It is very much a take-it or leave-it situation. He must sign into law, or return to Congress, the entire piece of legislation. As a consequence, specific provisions of the main bill and unrelated legislative riders that do not meet with the president's approval are forced upon him. If the main bill

is basically sound, and it is politically expedient, the bill is signed...along with the undesirable provisions.

The line-item veto would allow the president to more precisely work his will on legislation. As precedent, 43 states, Puerto Rico, the District of Columbia, and the Trust Territories all have executive line-item vetoes (23:M7). The process seems to work relatively well at that level. President Reagan, dissatisfied with Congress' track record on fiscal responsibility, requested a constitutional amendment for a line-item veto in his 1985 budget message.

> Where Congress lacks the will to enforce upon itself the strict fiscal diet that is now necessary, it needs the help of the Executive Branch. We need a constitutional amendment granting the President power to veto individual items in appropriations bills (23:M7).

Congress is very leery of granting this request. The concern is over losing even more congressional control of the budget to the Executive and a sense that Congress should be doing its job better, not abdicating a portion of its responsibility to the president.

> I see no panaceas in the "reform" proposals, and I have seen ideas, like the line-item veto, which are counterproductive to the goal of responsible Congressional budget decisionmaking (18:2).

The concern may be overstated. Any item-veto would likely apply only to discretionary spending, less than 40 percent of the new budget authority. If defense spending

were factored out, the potential effect would be even less (15:6). There are other considerations:

1. The veto of current outlays has an even smaller effect than feared since many outlays often spend out over a period of years.

2. It would reduce the president's incentive to compromise on appropriations, knowing he could veto any portion he didn't like when he signed the bill.

3. It would increase the president's role in policy-making, especially if the power to reduce expenditure was included with the power to eliminate.

4. It could lead to more pork-barrel legislation by Congress since they could defer the responsibility for spending cuts to the president.

5. The line-item veto enjoyed by state governors may not be directly comparable; state budgets being heavily weighted toward current outlays rather than the long-term programs at the federal level (15:7).

Much of the controversy surrounding this issue is over the definition of "item" and the power to reduce an expenditure rather than its outright veto. The caution, even from proponents of this reform, is to draft the measure carefully and strictly to avoid unintended consequences. One suggestion, by Arthur Smithies, that would negate some of the concern about granting too much power to the president:

> With general appropriations, the item veto would automatically apply only to legislative riders or specific appropriation items that were extraneous to the intent of the main bill (31:190).

The Credit Budget

Many Federal entities, both on and off budget, have the power to make direct loans and to incur loan guarantee obligations. This activity reached $138.6 billion in fiscal year 1983. In FY 85, the president asked for $130.5 billion in new authority. Until 1980, these loans and guarantees were completely outside the control of Congress (14:9). The fiscal year budget resolution contained nonbinding credit totals. Then, in the fiscal year 1983 budget resolution, Congress imposed binding limits on each committee. One of the resolutions most important provisions specified that the loans and guarantees would be "only available to the extent provided for in the separate appropriation bills" (10:31).

Under ordinary conditions, the loans and guarantees do not result in outlays; and therefore have no direct impact on government spending or the deficit. However, conditions have changed recently as defaults have increased.

TABLE IV

Direct Loan Write-Offs and

Guaranteed Loan Terminations for Defaults

(In millions of dollars)

	Actual		Estimate	
	1982	1983	1984	1985
Direct Loans:				
Student financial assistance	(*)	172	55	61
FmHA agriculture credit insurance fund	20	31	35	40
Federal Housing Administration	132	632	553	552
Small Business Administration:				
Disaster loan fund	67	98	90	80
Business loan and investment fund	241	280	300	300
Other	147	191	55	79
Total direct loan write-offs.	607	1404	1088	1112
Guaranteed loans:				
Foreign military sales	217	440	480	510
Guaranteed student loans	286	486	703	795
Veterans Administration loan guaranty revolving fund	709	1056	628	394
Federal Housing Administration	890	1484	1695	1581
SBA business loan and investment fund	845	790	577	562
Export-Import Bank	25	14	40	52
Grants to Amtrak	—	—	880	—
Other	98	409	253	127
Total, guaranteed loan terminations	3070	4679	5256	4021

(24:F-34)

The concern is that a greater percentage of the loans will not be repaid, especially those to foreign governments.

This would create a substantial impact. Table V shows the credit budget totals for fiscal years 1982 through 1987.

TABLE V

The Credit Budget Totals

(In billions of dollars)

	1982 act.	1983 act.	1984 est.	1985 est.	1986 est.	1987 est.
Direct loan obligations:						
Commodity Credit Corporation.....	11.5	13.9	6.1	6.1	6.7	6.4
Farmers Home Administration....	8.2	6.7	8.3	6.3	6.2	6.1
Rural Electrification Administration.........	5.8	4.5	4.5	1.9	1.9	1.9
Foreign military sales...........	3.9	5.1	5.7	5.1	5.2	5.3
Export-Import Bank............	3.5	0.8	2.6	3.8	3.8	3.8
All other........	10.5	10.4	10.7	8.5	8.5	8.5
Total obligations..	43.4	41.4	37.9	31.7	32.3	32.0
Guaranteed loan commitments:						
Federal Housing Administration..	16.6	44.6	38.1	40.9	42.6	45.8
Low rent public housing.........	13.3	14.3	15.2	14.9	14.6	14.3
Guaranteed student loans......	6.2	7.3	7.6	7.9	8.4	8.8
Veterans Administration housing	6.0	14.7	13.4	15.0	15.1	15.5
Export-Import Bank............	5.8	8.5	10.0	10.0	10.0	10.0
All other........	3.8	7.8	13.1	10.1	6.2	5.3
Total commitments..	53.7	97.2	97.4	98.8	96.9	99.7
Total credit budget	97.1	138.6	135.3	130.5	129.2	131.7
MEMORANDUM						
Secondary guaranteed loan commitments.............	36.4	64.2	68.2	68.2	68.2	68.2

(24:F-12)

The total of loans outstanding is shown in Table VI.

TABLE VI

Summary of Outstanding Federal and Federally Assisted Credit

(In billions of dollars)

	Actual			Estimate	
	1981	1982	1983	1984	1985
Direct loans:					
On-budget agencies........	91.3	100.2	105.0	101.1	103.7
Off-budget entities.......	93.7	107.6	118.0	131.1	141.6
Primary guaranteed loans...	309.1	331.2	363.8	403.2	442.2
Loans by Government-sponsored enterprises.....	182.3	225.6	261.2	301.0	343.9
Total, Federal and federally assisted loans..	**676.4**	**764.6**	**848.0**	**936.4**	**1031.4**
Federal borrowing from the public................	79.3	135.0	212.3	183.0	193.0
Primary guaranteed borrowing (same as guaranteed loans above)..............	309.1	331.2	363.8	403.2	442.2
Borrowing by Government-sponsored employees.......	161.8	205.5	239.9	279.7	322.1
Total, Federal and federally assisted debt...	**550.2**	**671.7**	**816.0**	**865.9**	**957.3**

(24:F6)

There is a potential problem with guaranteed loan obligations. They will rise to almost $600 billion in fiscal year 1989. These totals are not currently included in the Federal budget because they are contingent liabilities.

H.R. 2076, submitted by Congressman Mineta, would amend the 1974 Budget Act to:

1. Require the budget resolution to include the entire credit operation of the government agencies.

2. Make credit budget figures enforceable under Section 311 of the Act.

3. Make direct loans and loan guarantees subject to the reconciliation process (11:9).

The main thrust of this and similar bills is to give Congress control of credit activities to better coordinate credit policy with fiscal policy (2:71-2).

> Many credit programs act like entitlements, i.e., the underlying legislation creating these programs specifies loan levels and interest rates for which defined classes of borrowers qualify (37:47).

The economic policy impact of the loans and guarantees is substantial. The preferred interest rates allowed tend to steer the economy by subsidizing those projects in current political favor.

Multiyear Budgeting

> An area of weakness in national budgeting is the limitation to annual budget planning. Budget reform reconstituted the annual budget process in Congress, but the budget is made up primarily of multiyear decisions which commit funds to be spent for many years into the future....
>
> The Budget Act did not significantly alter the annual focus of decision making, but it did take two important steps toward more conscious consideration of multiyear spending. The CBO five-year projections and bill costing both are preliminary steps to more explicit multiyear budgeting (20:165).

The concept of multiyear, or advanced, budgeting has been proposed for over fifty years (40:262). Congress has inched toward it through experimenting with multiyear authorizations, but still funds programs on an annual basis. The president's current services budget is also a recognition that focusing on the annual effect of legislation is too short-sighted. It includes the budget effect of current legislation for the current plus four fiscal years (25:63).

> The rationale for multi-year budgeting is precisely to extend the time horizon of decision-making. Instead of considering effects in the next year, these considerations would extend several years (40:265).

Congressional budget resolutions now also include multiyear targets to make more visible the outyear results of current legislation.

Multiyear budgeting is not for all programs. The most productive areas seem to be:

1. Capital or physical asset acquisition.
2. Research and development funding.
3. Aid to state and local governments (37:157).

All of these are greatly aided by stable funding. The agencies can plan their operations more realistically and often save money through such procedures as multiyear procurement. Those in favor of this reform cite its advantages, but do recommend a careful, stepped approach.

1. "We may want to give serious consideration to a pilot run with a few two-year appropriations and authorizations. Let us see how these cases—like the foreign assistance bill—work out before we shift the whole spending apparatus over to this time frame" (37:213).

2. "A two-year authorization period would allow work on specific programs during the first session of Congress and leave the second session free for consideration of scheduled oversight reviews" (20:9).

3. It would allow the Budget Committees to challenge legislation with balloon spending that occurs after the current fiscal year (37:65).

Drawbacks to multiyear budgeting are more practical than procedural or philosophical. The procedure is viewed as increasing debate and controversy rather than reducing it, possibly to the extent that the entire budget process would come to a halt. Additionally, if economists are unable to project accurately for 6-12 months into the future, the question is raised how they could do it for longer periods (20:166).

Multiyear budgeting is not currently a major issue in the discussion on budget reform, especially to formalize it in any meaningful way. Rather, a change to a biennial budget process, which includes some of the same basic concepts, is receiving the most attention and stands the best chance for approval.

Sunset Provisions

Federal programs continue indefinitely unless their enabling legislation contains a termination date. Funding may be on an annual or multiyear basis, and change with budget priorities, but the basic program remains unaffected. "Sunset" legislation would require automatic termination of any program not reauthorized on a periodic schedule (9:41). No effort would be made to reauthorize every program every year due to the sheer volume of work it would involve.

Included in the sunset legislation would be entitlement programs, now responsible for over three-fourths of the Federal budget. They are usually considered untouchable because a change would require further legislation. Sunsetting would force this issue and make Congress decide if it still really needed a program, rather than having it continue by default (37:281). Some believe it is one of the few reforms that stand a chance of passage due to its essentially non-political nature.

> ...sunset legislation is one of the few things, one of the few mechanisms that we could incorporate that really would in fact bring the issue to a head and allow people to make more courageous decisions without being assured they were going to appear in the second edition of "Profiles in Courage," and without jeopardizing the congressional process in the meantime (37:282).

It might even help Congress resolve the budget deficit problem.

> If Congress were required to reconsider entitlements every few years, rather than allowing them to continue indefinitely, it would most likely find ways of limiting the growth of costs (14:8).

All programs within similar categories could be scheduled for reauthorization in the same year. Overlap and duplication could then become more visible and be reduced.

The Impoundment Control Act of 1974

Congressional satisfaction with the Impoundment Control Act was high during the last half of the 1970's. The Act did not end impoundments, but it did contribute heavily to a decline in their use (30:402). First President Ford, and then President Carter, had little success in overturning a strong Congressional intent, although President Carter did enjoy the greater measure of success due to party affiliation.

There was discussion of reform, especially in the following areas:

1. Volume of Paperwork--There is a need to simplify written procedures on routine impoundments to reduce the large volume of paperwork required of the Executive and Congress.

2. Delays in Reporting--The process often requires weeks for everyone to be notified. Part is procedure. Part is administrative foot-dragging for a purpose.

3. Delays within the Office of Management and Budget--OMB prefers to submit impoundments in groups rather than as they occur.

4. Delays inherent in Title 10 Procedures--The timetable for the various actions strings out the process up to four months. It allows the administration to frustrate the intent of Congress at least for this short period.

5. Reprogramming--The General Accounting Office has ruled that transfers of funds within the same appropriation account is not an impoundment. This allows the administration to significantly alter congressional intent at least within broad areas of spending authority (30:407-9). Congress has also discovered that impoundments can cut two ways. They could pass a popular piece of legislation and have it signed into law by the president. Then, when it proved too expensive or impractical, the president would impound the funds, Congress would acquiesce, and "let the president take the heat" (40:223).

Two events heightened interest in impoundment legislation and possible reforms:

1. A Supreme Court decision: <u>Immigration and Naturalization vs. Chadha</u>.

2. President Reagan's increased use of impoundment for policy purposes.

The <u>INS</u> vs. <u>Chadha</u> decision is important to the budget process only in that it declared a one-House legislative

veto to be unconstitutional. This directly affected Section 1013(b) of the Congressional Budget and Impoundment Control Act which allows either House to pass a resolution disapproving a presidential deferral of congressionally appropriated funds (36:131). The rationale was that the veto of a deferral was a legislative action without benefit of consideration and passage by both Houses and signature by the president. Recissions were not affected by Chadha because they require approval of legislation by both Houses.

Early concern turned out to be an over-reaction when it was determined how little the decision would actually effect the process. In fiscal year 1981, for example; of the deferrals denied by either House, 100 percent were contained in other legislative bills, not solitary resolutions, and thus a legal exercise of the veto power. In fiscal years 1982 and 1983, the figures were 71 percent and 89 percent, respectively. While it is generally agreed that the 1974 Act should be amended in light of Chadha, there is no immediate urgency (15:3-4).

The second reason for renewed interest in the impoundment provisions of Title 10 is President Reagan's increased use of the impoundment powers to enforce his policy choices on the budget process.

> The current administration has made a greater use of the impoundment powers of the Budget Act than

any previous administration. Some of the provisions of the Act have been abused (35:130).

Congressional response has been proposals designed to make technical changes in Title 10 and to extend its coverage to direct loans and loan guarantees, the credit activities of the Federal government (35:130).

One reversal of form worthy of note is congressional interest in using the impoundment procedures as a budget control device to help it meet the ceilings prescribed in budget resolutions (37:2). No action has yet occurred on this proposal.

<u>H.R. 5247 -- A Bill to Amend the Congressional Budget and Impoundment Control Act of 1974</u>

Since its enactment ten years ago there have only been three minor procedural amendments to the Congressional Budget Act of 1974 (11:3). As experience with the process has increased, so have the proposed changes. Piecemeal legislative attempts at reform have helped improve the budget process. The current large-scale proposal, H.R. 5247, was developed over a two-year period by the Task Force on the Budget Process, Committee on Rules. (In the House, the Committee on Rules has responsibility for the Budget Act, rather than the Budget Committee, as in the Senate.)

In part, H.R. 5247 formalizes what has already been accomplished in practice; but it also extends into many

other areas discussed in this chapter. The major provisions include:

1. A single, binding budget resolution.

2. Controls on off-budget activities, credit and tax expenditures.

3. A formalization of the reconciliation process.

4. A process for developing common economic assumptions (34).

The Bill was reported to the House on March 27, 1984. A hearing before the Committee on Rules was scheduled for May 23, 1984. Congressman James R. Jones, Chairman of the House Committee on the Budget, participated in the Task Force's deliberations as an observer, and presented extensive testimony. Agreement with the specific provisions of the Bill was not universal, but he did support the basic intent and many of its features.

> Within this context, perhaps the bill's greatest strength is that it attempts to be practical. It seeks to avoid impossible tasks, radical changes in procedure, or rules so complicated and rigid that procedural paralysis is likely. We are not sure that the aim is entirely accurate, but the target is correct (19:3).

> H.R. 5247 makes many "technical" improvements, particularly in the area of procedural enforcement. Their importance should not be dismissed... These so-called technical improvements may do more to facilitate the process than more innovative provisions, and are worth enacting even if all else is deleted (19:5-6).

IV. Analysis and Conclusions

Seventeen proposals to change the way Congress conducts its responsibility to collect and disburse revenues were discussed in Chapter III. The question that remains is whether any of these proposals will be implemented and what effect they would have on the executive agencies and Congress itself. There are few areas of consensus among the 535 members of the Legislature.

The one recurring theme is the need for some type of reform. There, the agreement ends. The Congressional Budget and Impoundment Control Act of 1974 met expectations only for the first two years, then began to unravel as the timetable for concurrent resolutions on the budget was consistently violated. Continuing resolutions became the norm and dissatisfaction grew. While budgets were passed, at least in part, the use of continuing resolutions was viewed as a very sloppy way of allocating the nation's resources and a poor reflection of congressional priorities. Nothing was settled, no progress made, by a continuation of the status quo.

When originally passed, the 1974 Budget Act was viewed by many as a solution to all the then existing ills. Congress would finally have a formal process to bring order to its financial dealings; and, not incidentally, to regain the control of the budget it gave up in the 1921 Budget and

Act. The high expectations may have been the seeds for future disappointment.

> A serious appraisal of congressional budgeting must be grounded, however, on realistic expectations rather than unreal aspirations. Congress does not have an all-purpose budget process that meets the conflicting and exaggerated expectations of those who have promoted it. The budget process is only one, and not always the most powerful, of the tools Congress has for making financial and program decisions (30:567).

There are three main criticisms of the current Budget Act that reflect the deep-rooted disappointment.

1. It has failed to curb the growth in Federal spending or produce a balanced budget.

2. Uncontrollable spending still dominates the budget (although the rate of increase has slowed).

3. It has not changed Federal budget priorities (30:568).

Given the environment in Congress, there will likely be few substantive changes that will go to the source of the problem.

> The basic characteristics of a representative body that made Congress irresponsible in the first place are still present--the penchant for pork and economizing only with someone else's project or program (10:156).

The first criticism is not capable of solution. Inflation, a growing economy, an aging physical plant in need of

renewal (roads, bridges, buildings), and an increasingly competitive world all mitigate against any easy answers.

> When it's easy to compose a majority on what the money should be spent for, it's easy to get the machinery to work. Right now, it's not easy to compose that majority (1:35).

> Politics has its expected impact on budget decisions.

> The central issue in the current debate between supply-siders and budget-cutters has never been strictly economic, or even mainly economic. It has all along been political and tactical. The political fact is that cutting the budget, eliminating or reducing federal programs, is devilishly difficult (5:136).

Individual politicians are not rewarded for macro-type decisions that influence the world power struggle. They receive votes based on what they do for their local constituency. More often than not, this translates into how much money the politician can bring into the home district. There is no criticism of the individual intended. The situation creates the problem. The prime job of any representative, irrespective of underlying motives or philosophy, is to get elected.

This so-called "spending bias" is based on three characteristics of the congressional environment.

1. Concentrated Benefits versus Dispersed Costs. The recipients of tax dollars are much more vocal and better organized (except in the case of issues such as Proposition 13 in California) than taxpayers. This is natural. Receivers, either as individual or geographic areas, stand to gain

a great deal from a Federal program such as a dam or waterway. Their specific pressure on individual congressmen can be enormous.

> One of the basic problems of federal finance is the power exercised by organized and section groups...Once the federal government embarks on a program of federal aid it is unlikely that it can ever stop or curtail it in the face of these pressures (38:17).

In contrast, the impact on individuai taxpayers is small. The dam might well result in a 13 cents per year increase for every taxpayer in the country. Thirteen cents is difficult to become excited about. It is the accumulation of the small amounts that needs to be addressed.

2. <u>Short Run Benefits</u> versus <u>Long Run Costs</u>...for congressmen. Spending programs harvest votes now. In keeping with the basic objective of getting elected, the temptation to sacrifice principle for demands of the moment runs high. The long run cost of an ill-considered program will be paid for by someone else, the blame erased by time and circumstance.

3. <u>Congressmen Gravitate to Committees that Allow Them to Influence Spending</u>. The centers of power in Congress are the revenue and spending committees. In order to bring home their "fair share," members must be a part of the authorization and appropriation process.

The second and third criticism of the current budget process, that it has failed to halt the growth in uncontrollable spending and left budget priorities unchanged, is partly a result of the factors discussed above. Votes are essential, but the real reason is much less subject to outright criticism.

> Uncontrollability is not an accident, or an inadvertence of the legislative process, but a willful decision by Congress to favor nonbudgetary values over budgetary control (30:571).

The congressional calendar is extremely crowded, and it is only partly the result of frequent and lengthy recesses. Once a policy or program philosophy is established, there is no reason to tinker with it on an annual basis. There are more compelling current needs. While the soaring costs associated with some long-term programs may now force periodic reconsideration, it is understandable that Congress as a whole would want to put most issues to rest and not rehash old ground each session. Part of the growth is attributable to inflation and part of an increasing population. When entitlements are adjusted by the cost of living index, increases are virtually certain. Again, this is a policy decision, and not an accident of the budget process (30:571).

There have been specific, positive benefits derived from the formal budget procedures that even the severest critics acknowledge. The process has:

1. Speeded congressional response to changes in public sentim . . The process is more visible and those outside the budget arena are better able to determine what is going on and influence the results.

2. Become a focal point for debate. Budget, authorization, and appropriation committees in both Houses have a strong voice in the process. Each wields restricted power in determining budget priorities. Through the Budget Committees and open floor debate, many more members of Congress are actively involved in the budget process.

3. Prodded Congress to take distasteful actions, like cutting programs. In concert with enormous deficits, the process itself is so visible that it forces consideration of issues formerly decided without much debate. When a budget ceiling is breached, it is news. The targets allotted to the numerous authorizing committees force priority decisions before the entire budget is passed. The budget as a whole is more visible and the effects of spending decisions can be traced back to their source and responsibility fixed (30:571+).

Among all the criticisms and positive benefits, there emerges an interesting finding from an extensive series of congressional interviews during the research for Allen Shick's book, _Congress and Money_.

> In almost a hundred interviews with Members of Congress and staffers, no one expresses the

> view that the allocations in budget resolutions had been knowingly set below legislative expectations. "We got all that we needed," one committee staffer exulted. The chief clerk of the Appropriations Subcommittee complained, however, that the target figure in the resolution was too high: "We were faced with pressure to spend up to the full budget allocation. It's almost as if the Budget Committee bent over backwards to give Appropriations all that it wanted, and then some" (30:313).

Given this setting, which proposals for reform stand the best chance for success?

The most obvious choice for a formal change to the Budget Act is one which has already been implemented in practice: Eliminate the second concurrent resolution and make the targets of the first concurrent resolution binding. In view of the congressional workload, this proposal has much to recommend it. Indeed, it is supported by the majority in both Houses. The only real opposition comes from the Appropriation Committees who fear further erosion of their power. Binding totals on the authorizing committees would take away much of the Appropriation Committees' responsibility. Totals and priority choices would be made before they even saw the spending bills.

Current relationships are jealously guarded and the ebb and flow of influence within Congress is not easy to alter. One example, cited by Senator Hatfield:

> ...the proposals which involve major shifts in the budget process do entail greater coordination between the budget, revenue, and appropriation committees. Some go so far as to suggest

> "omnibus" spending and revenue measures which could lead to a form of consolidation of the functions of these committees. With respect to the authorizing committees, it has become apparent that their role has diminished over the past several years. To recoup some of their authority, these committees have moved towards annual authorizations, in effect becoming more like the appropriations measures. This has led to a decline in their oversight and long-term "policy" development functions, while generating greater conflicts with the appropriation process (18:2).

The term "turf fight" is sprinkled liberally throughout the literature. It has little to do with substantive issues. It does concern the battle among the various committees to gain and hold influence over the financial reins in Congress.

The second proposal that has already been partially accepted in practice is to develop and use a common set of economic assumptions. Common sense and frustrating past experience is on the side of this seemingly apolitical reform. There is ample evidence in the news media how results do not match original expectations due to differing basic dollar, inflation, interest rate, or employment level assumptions. The difficulty in having meaningful debate should force a permanent change to the use of common assumptions.

Difficulty arises as to who would determine the assumptions for all participants. The best solution would be a Congressional Budget Office/Office of Management and Budget

conference. These two historical, friendly adversaries should be able to come up with a compromise set of assumptions; a compromise between the optimism of the administration and the relative pessimism of the Congress. No one will ever agree on all the figures, but at least Congress and the Executive Branch will be debating policy issues based on firmer common ground. The inherent compromises would have to be periodically adjusted for real-world events, but that is no different from current practice.

The last of the three de facto changes to the Budget Act is to make the reconciliation process part of the first concurrent resolution. First used by the Senate in 1979, and then by both Houses in 1980, the reconciliation process was never very popular even when used within its originally designed context of the second concurrent resolution. The appropriation committees were understandably reluctant to return to the committee rooms to reduce specific pieces of legislation to meet the binding ceilings...especially when these instructions came from the Budget Committees.

The Appropriation Committees view this process as a further threat to their power. Now, the entire chamber can vote on a reconciliation bill. The opportunity is there for the Congress to express its collective will rather than being forced to decide on legislation prepared for it in final form by one committee.

Majority opinion is on the side of first resolution reconciliation. It provides meaningful targets for the authorizing committees and helps reduce the last-minute compromises so characteristic of the process set out in the 1974 Act. Section 301(b)(2) allows the first concurrent resolution to contain any procedure considered appropriate. Delaying reconciliation until after Labor Day does not give Congress enough time before the start of the new fiscal year to make well-considered choices on what it wants to reduce if the budget ceilings are exceeded. There is also a greater chance that a weary Congress will pass the appropriation bills with the excessive spending intact. Although currently unenforceable, it is a very effective budget management tool. H.R. 5247 would make reconciliation a permanent part of the first concurrent resolution (34:36).

The remaining fourteen budget process reforms stand much less chance of formal adoption. Some lack widespread support. Others are too controversial for even limited agreement to be developed. All offer benefits, but have their share of disadvantages to one faction or another. One suggestion, which is more moderate, and basically apolitical, is biennial spending.

The interest in a two-year budget process is a reaction to the enormous amount of congressional time taken up with the current procedures. There is often time for little else beyond budget-related deliberations. To change that, a

number of variations on the general two-year idea have been proposed.

1. Lengthen the current process adjusting only the dates for each step of the timetable.

2. Pass authorizing legislation in the first session of each Congress with appropriation and oversight occuring in the second session.

3. Conduct the appropriation process in the first session and oversight and authorization in the second session.

There are advantages to each method, but the measure with the most support would have each new Congress pass on appropriations in their first session and then go through a six-month period of oversight before beginning a new authorization cycle. The rationale for this option is mainly political (35:86). No new Congress, or president, would want to wait a year before trying out their new programs, as would be the case under options 1 and 2. In the first session of each new Congress the 13 appropriations bills could be debated and passed within the context of current priorities. Then, ample time would be available for the often neglected oversight function. In the second session, a new budget cycle would begin with the authorization process when the participants were more knowledgeable of the effects of their decisions during the first session.

It is unlikely that a formal two-year budget cycle will be adopted. Inertia is one reason. The current swing toward tighter control of the budget is another. Probably the most important reasoning against adoption is expressed by Senator Hatfield:

> A biennial budget in theory would greatly expand the time available for review and oversight by minimizing the conflict in scheduling and decisionmaking between the authorizing and appropriations committees. Furthermore, in theory, it would reduce the number of measures which have to be considered in any one year so as to permit greater care and attention to those which would have to be passed. If enacted, the biennial budget process may have some beneficial effect, but I believe that the conflicts between authorizing and appropriations committees goes deeper than scheduling, and more than a scheduling change is needed to solve them. Furthermore, Congress now has difficulty in enacting annual bills on a timely basis, changing the schedule may have little effect other than altering when they are late (18:3).

The alternative, to place more authorizations and appropriations on a two-year cycle, is more likely of adoption. This would accomplish the intent of the biennial process without its inherent drawbacks. Even strong proponents want to approach the idea on a trial basis before full adoption (14:4).

Although Congress has only recently wrested control of the budget process from the Executive Branch, an idea that would put a potent weapon in the hands of the president, the line-item veto, is receiving renewed consideration. There

is substantial precedent for it at the state level. However, comparability to the Federal level is open to debate.

Even though President Reagan asked Congress for this power in his 1985 Budget Message, there should be some question on whether he did not do so knowing the request would be denied. The power of the veto can work for or against the holder, entirely dependent on circumstance. The opportunity for Congress to "play politics," especially where the majority party in Congress differs from the political philosophy of the president, is enormous and can put the Executive in an awkward position.

While a line-item veto would give the president a greater direct role in policy determination, it could force upon him some unwelcome choices. Currently, bills must be vetoed in total, or not at all. If the president had the line-item veto, he could remove or reduce those portions of a bill he found offensive. When the congressional majority and the president are of the same party, it would likely work fairly well. Open conflicts could be kept to a minimum, at least in public debate. Were the two branches controlled by opposing parties, the opportunity for mischief would be very high.

An example can be drawn from the volume of pork barrel legislation attached to otherwise worthwhile legislation. Unless Congress itself imposed some controls, this would increase. An adversarial Congress could routinely embarrass

the president by including bogus or expensive locally-oriented riders, knowing the president would have to exercise his line-item veto or appear to approve of the riders by implication. It would be a no-win position. If he vetoed the rider, he would lose votes within the affected constituency. If he allowed the rider to remain, he could be accused of fiscal irresponsibility.

This two-edged sword has a further, more serious consequence beyond superficial political motives. There is the very real danger that Congress could further abdicate its responsibility for thorough consideration and oversight of legislation by passing virtually every bill that was introduced. Then, the president would have to determine what the country's priorities should be. A strong-minded president might welcome the opportunity, but our check and balance system would be negated. Would this ever occur? Unlikely, but there is precedent. A weak Congress, of the same party, without strong leadership in the majority party, or the loyal opposition, just might become too much of a rubber stamp.

House Resolution 5247, A Bill to Amend the Congressional Budget Act of 1974, is a more all-inclusive attempt to alter the budget process. It includes in its major provisions the single, binding resolution with reconciliation and a plan for a common set of economic assumptions

discussed above in this chapter. It has been reported to the House and is currently in the hearing process before the Committee on Rules. Its ultimate success will depend on the outcome of the November 1984 elections. No action is predicted for this session.

During the 1982 hearings on the budget process in both the House and Senate, there was a frequent warning from those testifying. The tone was the same whether the witness was for or against change in the process. The Honorable Henry Bellmon, Co-chairman of the Committee for a Responsible Federal Budget and former U.S. Senator:

> I believe the budget process is here to stay. I think the act is working well, and the main reason I am here this morning is to suggest that you not go into a process of tinkering with it and amending it at this time. I am afraid that if the act is opened up to a major amendment, the net result will be a weakened act...(37:5).

The Honorable Robert N. Giaimo, Co-chairman of the Committee for a Responsible Budget and former Congressman:

> ...you have gotten to the point where you have a binding resolution in place, and you did it without having to change the Budget Act. That compels me to reiterate and agree with my colleague, Senator Bellmon...there is a great deal of hostility towards you (the Senate Committee on the Budget). So, anything you can do to minimize and avoid these kinds of struggles will serve you well. Therefore, I say if you can make these changes and implement these changes by rules changes or by interpretations or by inferences rather than by taking up the Budget Act and changing it, I would recommend that you leave that to a calmer day (37:11).

John T. McEvoy, Chairman, Department of Federal Policy, Law firm of Kutak, Rock, and Huie:

> The budget process was intended to change the way Congress does its business. It has achieved that result...I am afraid the climate for reasonable discussion of Budget Act amendments has not improved recently. The debate on the budget resolution in the House this year was studded with threats by important Members of the House to reduce the importance and effectiveness the budget process has attained. Amending the Budget Act would open the door to all of these critics to act on their complaints (37:74-5).

Concern over the current hostile climate was by no means unanimous. Senator Slade Gorton, member of the Committee on the Budget:

> Are we ever, even when the deficit goes below $100 billion, going to have a situation in which these reforms are easier? Might it not be best for us to do it right now while people have fresh in their minds what the difficulties and what the advantages have been (37:21)?

Those concerns were very real and probably justified. Have conditions changed? If Senator Goldwater's bill to repeal the majority of the 1974 Act is any indication, the hostile environment is still present. Whether that will impact on the ultimate form of H.R. 5247 is uncertain. The major provisions of this bill seem to attempt the possible rather than forcing on Congress more rigid requirements (19:3). It merely formalizes many areas already changed in practice. If that is the case, is there any real value to

H.R. 5247? Congressman James R. Jones, Chairman of the House Committee on the Budget:

> H.R. 5247 makes many "technical" improvements, particularly in the area of procedural enforcement. Their importance should not be dismissed. These so-called technical improvements may do more to facilitate the process than more innovative provisions, and are worth enacting even if all else is deleted (19:5-6).

The concern in 1982 was the budget deficit. Today's worry is a $200 billion deficit. The process seems intact and functioning well. The major flaws are not in the process itself.

> The main reason for the breakdown in the budget process are differences in philosophies concerning spending levels and priorities both between and within our political parties. While the budget process itself might be improved, it is unlikely that it will work much better until a greater consensus on the role of the federal government emerges in Congress (16:348).

Each of the specific proposals evaluated thus far dealt with reform of the 1974 Budget Act. Given that change to the process in some form is inevitable, would it really improve the final result? Would Congress spend more wisely our hard-earned tax dollars? Would the country be able to get away from $200 billion deficits? There are many who express doubts (37:217). They believe that only a constitutional amendment, mandating a balanced budget, will force fiscal responsibility on a spend-happy legislature. Senate

Joint Resolution 58 passed 69-31. Although motivations might be suspect, at least surface indications show that Senate interest in a constitutional amendment runs high.

Those in favor point to the failure of the Budget Acts to bring about a balanced budget. Congress must be forced to act responsibly. President Reagan, in the same budget message that he requested a line-item veto, pressed Congress to begin the process to amend the Constitution (23:M7).

While those opposed are in at least the vocal majority, there may be many in the closet who would amend the Constitution. Like all the other proposed solutions, would it work? In the answer to this one question may be the best reason not to amend the Constitution. There are too many ways for Congress to circumvent even a carefully worded amendment: capital budgeting, backdoor spending, and off-budget borrowing, to name a few (35:57). If the danger is real, would not the great promise placed on a constitutional amendment soon be dashed and lead to even greater frustration and hostility toward the budget process? If the fears are exaggerated, would the time, energy, and money spent on the amendment process be better used elsewhere? Before any evaluation can be considered adequate, the desirability of a balanced budget must be agreed to...and there is no ready consensus. Senator Domenici's comment before his own Budget Committee faces the real issue:

> The problem of getting a balanced budget is not primarily a procedural one. It is in large part a problem of political will (14:11).

Congress can do anything it collectively wants to do. Everything hinges on the power of the votes cast by the 535 individual members of Congress.

Summary of Conclusions

A. The Budget Act reforms that stand the best chance of formal acceptance:

1. Elimination of the second concurrent resolution.

2. Inclusion of reconciliation in the first concurrent resolution.

3. The use of common economic assumptions.

B. There will be no large-scale reform measures, such as H.R. 5247, passed in the near future.

C. Any reforms will be piecemeal, with the overall 1974 Budget Act structure remaining intact.

D. There will be no constitutional amendment.

E. Biennial budgeting will not become commonplace. Greater authorization and appropriation of individual programs will be tried as an alternative.

Summary of Proposals for Reform

Proposals for Reform	Advantages (A)/ Disadvantages (D)	Chance of Acceptance
Elimination of the Second Concurrent Resolution.	(A) Reduces redundant review of proposed legislation.	Probable. This has been in actual practice for 3 years.
	(D) Reduces the power of the appropriations committee.	
	(D) Economic assumptions may change between May 15 and September 15.	
A Common Set of Economic Assumptions.	(A) All participants use the same numbers as the basis for their discussions.	Probable. Already partially adopted.
	(A) Reduces confusion and arguments over assumptions. Time is spent on the substantive issues.	
	(D) Difficult to reach agreement on basic assumptions each year.	
	(D) Reduces flexibility of all participants.	
	(D) Provides false sense of security that assumptions are valid.	

Proposal for Reform	Advantages (A)/ Disadvantages (D)/	Chance of Acceptance
Repeal of All or Part of the 1974 Budget Act.	(A) Current act too confining and hasn't solved problems. (A) May be at least partially responsible for the deficit. (D) Most members of Congress prefer a structure to use/blame.	Unlikely, although there may be widespread unspoken support.
Off-Budget Activities. (Include them in the authorization and appropriation process.)	(A) Better visibility and indicator of government involvement in economy. (D) Deficit would be larger.	Possible. Congress has made a conscious choice to "hide" certain spending programs.
Reconciliation as a Part of the First Concurrent Resolution.	(A) No time for reconciliation in September. (A) Gives committees an early idea of final spending targets. (D) Reduces power of appropriation committees.	Probable. This has been in actual practice for 3 years.

Proposal for Reform	Advantages (A)/ Disadvantages (D)	Chance of Acceptance
The Biennial Budget Process.	(A) Longer time to consider proposed legislation. (A) More time for oversight. (D) Economic conditions are highly volatile over a 2-year span. (D) No real solution to underlying problem.	Unlikely. The advantages are not persuasive. Use for some limited programs is possible.
Change the Fiscal Year to Coincide with the Calendar Year.	(A) Reduction in confusion. (A) More time for Congress to consider the budget. (D) Further distortion in economic assumptions.	Unlikely. The turmoil of the 1974 Act is still remembered.
The Capital Budget	(A) Philosophical considerations of matching cost of current operations with current revenues. (A) Long-term assets paid for by each using generation. (D) Means to hide large deficits.	Unlikely. Little current support.

Proposals for Reform	Advantages (A)/ Disadvantages (D)	Chance of Acceptance
A Constitutional Amendment to Balance the Budget.	(A) Forces a measure of fiscal responsibility. (A) Very visible process. (A) Congress lacks the current will to balance the budget on its own. (D) Too many ways to thwart its intent. (D) Very difficult to undo if it proves a failure. (D) No consensus that deficits are inherently evil.	Unlikely. Pockets of support, but a strong consensus is absent. Too difficult to enact.
Changes to the Budget Committees.	(A) Greater efficiency. (D) Change in the power structure by eliminating two committees in each House.	Unlikely. Any change to the basic power structure is difficult, at best. There is no current widespread support.
Enforce Budget Resolution Ceilings.	(A) Equity. Each committee could only spend the funds allotted to it. (A) Decrease the reward for speed and increase the quality of debate. (A) Budget Committee as a monitor rather than a policy-maker.	Possible. "302 allocations" being enforced on a trial basis.

Proposals for Reform	Advantages (A)/ Disadvantages (D)	Chance for Acceptance
The Presidential Line-Item Veto.	(A) Better control over extraneous legislation. (A) President is accountable to all the people and should have the general interest in mind. (D) Loss of congressional control of the budget. (D) Reduces the spirit for compromise between Congress and the Executive. (D) Opportunity for Congress to "play politics."	Unlikely. It gives too much power to the president to set policy, a congressional prerogative.
The Credit Budget.	(A) Better control over Federal involvement in the economy. (A) Better coordination of fiscal and credit policy.	Unlikely of formal adoption. Already submitted by the president as part of his January budget.
Multiyear Budgeting.	(A) Better planning for agencies. (A) Cost savings. (A) More time to consider other legislation. (D) Reduces congressional flexibility to change programs as needs change.	Probable increase in use for some programs, but not for universal adoption.

Proposals for Reform	Advantages (A)/ Disadvantages (D)	Chance of Acceptance
Sunset Provisions.	(A) Forces review of sometimes unneeded programs. (A) Might help reduce the deficit through periodic review of costly programs. (A) Overlap and duplication more visible. (D) Increases congressional workload.	Unlikely for widespread use. Little current support.
The Impoundment Control Act of 1974.	(A) Need to simplify procedures and decrease delays in the process.	Possible. Technical changes would have little overt effect on the budget process.
H.R. 5247--A Bill to Amend the Congressional Budget and Impoundment Act of 1974.	(A) Formalize in law those procedures currently used informally. (D) Some would prefer more drastic changes or repeal of the process.	Possible. Sentiment is high for some kind of change. The Bill would attempt modest, practical changes.

Appendix A: Glossary

The budget process is a complex area of study. It is made more so by a large number of technical terms that often have unique meaning within the context of the budget process. Where possible, definitions are those provided by Congress itself; extracted from legislation and budget-related documents. No attempt is made to credit any individual source as the terms involve common public usage. More exhaustive lists can be found in references 25, 30, 36.

Authorization/Authorizing Legislation

Legislation enacted by Congress that sets up or continues the legal operation of a Federal program or agency either indefinitely or for a specific period of time or sanctions a particular type of obligation or expenditure within a program.

Authorizing legislation is normally a prerequisite for appropriations. It may place a limit on the amount of budget authority to be included in appropriation acts or it may authorize the appropriation of such sums as may be necessary.

Appropriation

An authorization by an act of Congress that permits Federal agencies to incur obligations and to make payments

out of the Treasury for specified purposes. An appropriations act, the most common means of providing budget authority, generally follows enactment of authorizing legislation unless the authorizing legislation itself provides the budget authority. There are currently 13 regular appropriation acts under the jurisdiction of the House and Senate Committees on Appropriations.

Annual Funding

The current congressional practice of limiting authorizations and appropriations to one fiscal year at a time.

Backdoor Authority/Spending

Budget authority provided in legislation outside the normal appropriation process. The most common forms of backdoor spending are authority to borrow, authority to contract, and entitlements.

Borrowing Authority

Statutory authority that permits a Federal agency to incur obligations and to make payments for specified purposes out of borrowed money. Section Section 401 of the 1974 Budget Act.

Capital Budget

A budget with investment in capital assets excluded from calculations of the budget surplus or deficit. A capital budget separates the financing of investment-tyoe expenditures from current or operating expenditures.

Concurrent Resolution

A resolution passed by both Houses of Congress, but not requiring the signature of the president, setting forth, reaffirming, or revising the congressional budget.

Continuing Resolution

Legislation enacted by Congress to provide budget authority for specific ongoing activities in cases where the regular fiscal year appropriation has not been enacted by the beginning of the fiscal year. The continuing resolution usually specifies a maximum rate at which the agency may incur obligations, based on the rate of the prior year, the president's budget request, or an appropriation bill passed by either or both Houses of Congress.

Contract Authority

A form of budget authority under which contracts or other obligations may be entered into in advance of an appropriation or in excess of amounts otherwise available in a revolving fund. Contract authority must be funded by a subsequent appropriation.

Credit Budget

The aggregate of the direct loan obligations and guaranteed loan commitments of the Federal government. By presenting the total volume of Federal credit, it facilitates administrative and legislative control over individual

credit programs through limitations set in appropriation acts. It is not a control device, as no ceilings or limits are currently imposed.

Current Services Budget

Presidential estimates of budget authority and outlays for the ensuing fiscal year based on continuation of existing levels of service. These estimates reflect the anticipated costs of continuing Federal programs and activities at present spending levels without policy changes. They are accompanied by the administration's underlying economic assumptions such as the rate of inflation, the rate of real economic growth, the unemployment rate, and projected pay increases.

Deferral

Any action or inaction by any officer or employee of the United States that withholds, delays, or effectively precludes the obligation or expenditure of budget authority. Deferrals may not extend beyond the end of the fiscal year in which the message reporting the deferral is transmitted to Congress. It may be overturned by an impoundment resolution passed by either House of Congress. (This last statement is now in doubt. See Legislative Veto, below.)

Full Employment Budget

The estimated receipts, outlays, and surplus or deficit

that would occur if the U.S. economy were continually operating at full capacity.

Impoundment

Any action or inaction by an officer or employee of the U.S. government that precludes the obligation or expenditure of budget authority. This is a general term that includes deferral and recission.

Legislative Veto

Procedures that permit the Congress to invalidate pending regulations, reorganization plans, and certain international agreements through resolution by one or both Houses. The one-House veto has been declared unconstitutional by the Supreme Court in Immigration and Naturalization Service vs. Chadha. The rationale for the ruling was that the one-House resolution is legislation that has not been considered by both Houses.

Off-Budget Federal Entities

Certain Federally owned and controlled entities whose transactions have been excluded from budget totals under provisions of law. The fiscal activities of these entities are not reflected in either budget authority or budget outlay totals. However, the outlays of off-budget Federal entities are added to the budget deficit to derive the total Government deficit that has to be financed by borrowing from the public, or by other means.

Recission Bill

A bill or joint resolution that provides for cancellation, in whole or in part, of budget authority previously granted by Congress. Recissions proposed by the President must be transmitted in a special message to Congress. Unless both Houses of Congress complete action on a recission bill within 45 days of continuous session after receipt of the proposal, the budget authority must be made available for obligation.

Reconciliation Process

A process used by Congress to reconcile the amounts determined by tax, spending, and debt legislation for a given fiscal year with the ceilings enacted in the second (or first) required concurrent resolution on the budget.

Scorekeeping

A procedure used by the Congressional Budget Office for up-to-date tabulations and reports of congressional budget actions on bills and resolutions providing new budget authority, outlays, changing revenues, and the public debt limit for a fiscal year. Such reports include, but are not limited to, status reports on the effects of these congressional actions to date and of potential congressional actions, and comparisons of these actions, to targets and ceilings set by Congress in the budget resolutions.

Sunset Provisions

A requirement that programs must be periodically reauthorized if they are to continue to be funded.

Tax Expenditures

Losses of tax revenue attributable to provisions of the Federal tax laws which allow special exclusions, exemptions, or deductions from gross income or which provide special credit, preferential rate of tax, or a deferral of tax liability.

Uncontrollable Portion of the Budget

That portion of the Unified Federal Budget (currently in excess of 75 percent) that would be spent without any further action by Congress in the current fiscal year. (The term is actually a misnomer. All Federal outlays are controllable if Congress were to enact new legislation.)

Unified Federal Budget

The present form of the budget of the Federal Government, adopted in 1969, in which receipts and outlays from Federal funds and trust funds are consolidated. Transactions of off-budget Federal activities are not included.

Appendix B: Procedure for Soliciting Congressional Response

The five steps which follow outline a successful method of contacting members of Congress or their staff. The important criteria are to identify yourself, be specific as to what you need, and then explain how the information will be used.

1. Contact the Air Force Congressional Liaison Office at AV 224-8110.

   a. Notify them of the purpose of the congressional contact and request specific guidance on current procedures.

   b. Solicit their help initiating the contacts. (NOTE: Any Pentagon office can be reached through the central switchboard at AV 224-3121.)

2. Telephone the office of the congressman or committee.

   a. Determine if a personal interview is possible.

   b. In the alternative, ask for their help through correspondence.

3. Establish an interview schedule with the congressman or their staff representative. Send a letter in advance of the meeting with your subjects of interest.

4. In the alternative, send an introductory letter to the previously contacted individual, including the questions that need an answer. Reference the prior contact. A sample letter follows on the next page.

5. Prior to final publication, contact the congressman or staff assistant again to both thank them for their help and to determine any late changes that would make a contribution to the project.

May 12, 1984

5300 Waverly Street
Fairborn, Ohio 45324
1-513-864-5894

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Whitten:

I am a graduate student at the Air Force Institute of Technology, Wright-Patterson Air Force, Ohio. My masters research area is the history of the federal budget process, the Budget Acts of 1921 and 1974, and current proposals for reform. Page two contains a list of the specific areas of interest that I would appreciate your comments on. A pro and con discussion on each point you or your committee are concerned with would be extremely valuable to my research.

The subjects have been drawn from my own and my thesis advisor's interests solely for use in a master's thesis. My overall purpose is to prepare a comprehensive review of the history of the federal budget process together with an analysis of the current activity on the need for reform in both the legislative and executive branches.

If possible, a reply by June 8, 1984, would be most helpful. After this initial correspondence, I would appreciate your staff advising me of any substantive changes. The final thesis draft will be submitted for approval in mid-August. I would like your permission to quote from your reply giving source credit. However, if you prefer, I will treat your reply as confidential.

Thank you for your assistance in my research. I realize this time period in an election year is a very busy one for you and your committee and staff. You can be assured that any information you provide will be put to good use. It will significantly assist both myself and readers of my thesis in more fully understanding this complex and important national issue.

Sincerely,

William R. Lantz, Capt, USAF

Specific Areas of Research Interest:

1. What is the mood or sense of urgency in Congress as a whole for changing the budget process?

2. What are the current proposals for reform? (If possible, would you include copies of proposals or references to published sources?)

3. Which proposals stand the best chance for acceptance?

4. What effect would each proposal have on the Budget, Finance, Authorization, and Appropriation Committee interrelationships?

5. How could Congress look outside its own body for help in making the budget process work better?

   a. How could the executive budget be improved as to format or timing?

   b. Do we still need a formal executive budget?

6. How could the executive agencies help improve the functioning of the current budget process?

7. How would a biennial budget cycle allow more time for legislative review and oversight?

Appendix C: Congressional Respondents

Mark O. Hatfield, Chairman, Senate Committee on Appropriations.

Silvio O. Conte, Minority Leader, House Committee on Appropriations.

James R. Jones, Chairman, House Committee on the Budget.

Mace Broide, Executive Director, House Committee on the Budget (for Congressman Jones).

Chuck Konigsberger, Staff Attorney, Senate Committee on the Budget (for Senator Domenici).

William L. Dickinson, Minority Leader, House Committee on Armed Servicus.

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The Federal budget process has been in continual evolution since the first days of the Republic. Control has periodically shifted from the Executive Branch to the Legislature, and then back again. The only real constant in the process has been change. The current budget process is based on the Budget and Accounting Act of 1921 and the Congressional Budget and Impoundment Control Act of 1974. The need for further change has been expressed by many, both within and external to the budget process. The second chapter is a chronological look at the evolution of the budget process. Early history is followed by a description of the 120 years of confusion from 1801 to 1920. The specific responsibilities of the key participants were first set out in the Budget and Accounting Act of 1921, which brought some order to the process, but gave a great deal of power to the Executive Branch. Congress redressed this imbalance with the Congressional Budget and Impoundment Control Act of 1974. Since then, dissatisfaction has grown and many suggestions have been made on further changes; the most radical being a constitutional amendment forcing a balanced budget. Each of these reform suggestions, a total of seventeen, is discussed as to substance and their potential for acceptance. The final chapter presents conclusions as to the prevailing mood in Congress for reform and which proposals stand the best chance of adoption. The final conclusion is that major reform is unlikely in this election year and doubtful in the near future. Too many divergent interests in Congress would have to agree on any changes. Opinion on what, if anything, must be done to improve the budget process is far from unanimous.

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